

CORONATION GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER FUND

Fund Information as at 31 May 2024

WHAT IS THE FUND'S OBJECTIVE?

The fund aims to achieve a higher return than a US dollar term bank deposit. It is mainly focused on delivering short-term income.

WHAT DOES THE FUND INVEST IN?

The fund invests between 75% and 100% of its assets in a wide variety of fixed income assets. This may include bonds, money market instruments and other debt securities issued by international governments, banks and other companies or institutions.

Up to 25% of the fund may be invested in listed property, preference shares and other forms of hybrid debt or equity instruments.

While the fund may invest in instruments in any currency, its effective exposure to the US dollar will at least be 75% at all times.

The average duration in the fund will typically not exceed three years.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile



Maximum growth/ minimum income exposures



The fund is tactically managed to secure an attractive income, 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, it is not guaranteed to always outperform cash over short periods of time, and may suffer capital losses primarily as a result of interest rate movements or negative credit events.

Capital growth, if any, will generally come from capital market changes such as falling interest rates or movements in foreign currencies.

This feeder fund aims to remain fully invested in units in the offshore domiciled Global Strategic USD Income Fund. The only other assets that will be held at feeder fund level are local and foreign cash holdings for liquidity purposes.

HOW LONG SHOULD INVESTORS REMAIN INVESTED?

The recommended investment term is 12-months and longer. Given its limited exposure to growth assets, the fund is not suited for long investment terms.

WHO SHOULD CONSIDER INVESTING IN THE FUND?

Conservative investors who are looking for an intelligent alternative to US dollar bank deposits.

WHAT COSTS CAN I EXPECT TO PAY?

An annual fee of 0.80% is payable.

Of the annual fee, 0.30% is collected at feeder fund level, while the balance of the fee is collected in the master fund. The component of the fund fee charged at feeder fund level is subject to VAT. Fund expenses that are incurred in the fund include administrative, trading, custody and audit charges. All performance information is disclosed after deducting all fees and other portfolio costs.

We do not charge any 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



SEAMUS VASEY
BCom (Hons), MSc

GENERAL FUND INFORMATION

Launch Date	30 August 2013
Fund Class	A
Benchmark	110% of Secured Overnight Financing Rate (SOFR)
ASISA Fund Category	Global – Multi-asset – Income
Income Distribution	Semi-annually (March & September)
Investment Minimum	R5 000 or R500/m debit order
Bloomberg Code	CORGSIF
ISIN Code	ZAE000181012
JSE Code	CGSUI

CORONATION GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER FUND

CLASS A as at 31 May 2024

ASISA Fund Category	Global - Multi-Asset - Income
Launch date	30 August 2013
Fund size	R 2.65 billion
NAV	225.07 cents
Benchmark	110% of SOFR
Portfolio manager/s	Nishan Maharaj & Seamus Vasey

Total Expense Ratio	1 Year	3 Year
Fund management fee	0.90%	0.91%
Fund expenses	0.80%	0.80%
VAT	0.06%	0.06%
Transaction costs (inc. VAT)	0.04%	0.05%
Total Investment Charge	0.01%	0.01%
	0.91%	0.92%

PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES) (ZAR)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	125.1%	120.7%	4.4%
Since Launch (annualised)	7.8%	7.6%	0.2%
Latest 10 years (annualised)	7.7%	7.9%	(0.2)%
Latest 5 years (annualised)	7.6%	7.8%	(0.1)%
Latest 3 years (annualised)	13.4%	14.7%	(1.3)%
Latest 1 year	0.9%	1.0%	(0.1)%
Year to date	4.3%	5.3%	(0.9)%

	Fund
Modified Duration	1.2
Yield (Net of Fees)	5.2%

PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES) (USD)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	22.2%	20.6%	1.5%
Since Launch (annualised)	1.9%	1.8%	0.1%
Year to date	2.1%	2.5%	(0.4)%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	13.9%	14.4%
Sharpe Ratio	0.04	0.02
Maximum Gain	30.7%	33.0%
Maximum Drawdown	(23.2)%	(25.6)%
Positive Months	55.0%	53.5%

	Fund	Date Range
Highest annual return	36.7%	Feb 2015 - Jan 2016
Lowest annual return	(18.8)%	Jun 2020 - May 2021

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2024	1.6%	3.2%	(0.5)%	(0.6)%	0.6%								4.3%
Fund 2023	3.5%	5.5%	(3.4)%	3.6%	8.3%	(4.2)%	(5.0)%	6.5%	(0.5)%	(0.8)%	2.5%	(1.4)%	14.6%
Fund 2022	(3.1)%	(0.7)%	(6.1)%	8.0%	(1.6)%	4.1%	2.1%	2.5%	4.1%	2.3%	(6.9)%	1.3%	5.0%
Fund 2021	2.4%	0.2%	(1.6)%	(1.4)%	(5.1)%	4.0%	2.5%	(0.9)%	3.8%	1.0%	4.6%	0.2%	9.7%
Fund 2020	6.2%	4.5%	9.7%	5.2%	(3.1)%	(0.9)%	(1.4)%	(0.1)%	(1.8)%	(1.9)%	(5.1)%	(3.8)%	6.5%
Fund 2019	(6.4)%	5.7%	3.7%	(0.4)%	1.4%	(2.8)%	0.7%	6.8%	0.5%	0.2%	(2.9)%	(3.7)%	2.0%

PORTFOLIO DETAIL

ASSET ALLOCATION BY INSTRUMENT TYPE

	% of Fund
Developed Market (Investment Grade)	79.5%
Fixed Rate Bonds	30.6%
Floating Rate Bonds	39.4%
Inflation Rate Bonds	9.5%
Emerging Market (Investment Grade)	6.2%
Fixed Rate Bonds	4.8%
Floating Rate Bonds	1.4%
Inflation Rate Bonds	0.0%
Developed Market (High Yield)	0.8%
Emerging Market (High Yield)	4.0%
Convertibles and Hybrids	3.8%
Listed Property	1.3%
ETF	0.2%
Cash & Money Market	4.2%
Total	100.0%

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Corporations	56.4%
Sovereigns	38.1%
Cash	4.2%
Multi-National	0.0%
REITS	1.3%
Total	100.0%

ASSET ALLOCATION BY RATINGS BAND

	% of Fund
Investment Grade	88.8%
Sub-investment Grade	5.0%
Other instruments	6.2%

TOP 5 ISSUER EXPOSURE

	% of Fund
United States Government Treasury	32.2%
Government of Mexico	3.2%
UBS	2.9%
Bank of America	2.5%
Morgan Stanley	2.4%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
28 Mar 2024	02 Apr 2024	0.00	0.00	0.00
29 Sep 2023	02 Oct 2023	0.00	0.00	0.00

Please note that the commentary is for the US dollar retail class of the Fund. The feeder Fund is 100% invested in the underlying US dollar Fund. However, given small valuation, trading and translation differences for the two Funds, investors should expect differences in returns in the short term. Over the long term, we aim to achieve the same outcome in US dollar terms for both Funds.

For global fixed income markets, the start of 2024 was dominated by a singular phenomenon: a recalibration of expectations for easing by major central banks, especially the US Federal Reserve (Fed). The combination of an excessive overextension of priced rate cuts hitting an atypical and contradictory run of macroeconomic data forced a major re-think of short-end interest rates across most major markets. The notion that there is no such thing as a steady plateau to any interest rate cycle has been aggressively reinforced over the course of 2024 to date. Against this backdrop, the Fund returned 1.4% for the quarter and 6.0% for the 12-month period, in line with the benchmark return.

Asset class performances

Almost as quickly as the closing months of 2023 witnessed very strong and coordinated compression in Developed Market (DM) sovereign bond yields, this was dramatically reversed over the course of Q1-24. While there was a divergence of central bank guidance and policy moves in the first three months of the year, the most significant driver was the Fed's signalling that rate cuts in the US were not nearly as imminent as markets had started to anticipate. What made this such an acute episode of interest rate volatility was the degree to which interest rate easing had been anticipated. For a brief moment during January, market pricing had built in an assertive easing cycle of seven consecutive interest rate cuts in the US, with the first cut looming.

However, a powerful – and unusual – combination of consecutive and coordinated data prints in the US brutally swung the narrative in the opposite direction. The persistence of a much more resilient labour market than was believed feasible, especially sticky inflation prints, and activity data that reinforced a view around existing pockets of strength and allayed fears for the weaker areas, became impossible to discount as mere statistical blips. And what deserves recognition here is that market-based expectations have been the most wildly flung about. The Federal Open Market Committee (FOMC) itself had in no way been as committed to the extent and forthcoming timing of the interest rate cycle that the market had worked itself up into a frenzy over. As such, the adjustment made by most Fed officials has been to acknowledge the steer provided by the most recent batch of macro-data but not go as far as to rule out the peak of the tightening cycle having been achieved.

The net result for the US Treasury curve was a meaningful bear flattening move over the quarter, with limited and short-lived pull-backs along the way. Short-end rates naturally rose the most as the number of cuts priced in over the next 12 months moved from over seven to only three. But long-end rates also adjusted higher, with the 10-year US Treasury (UST) reaching a low of 3.88%, a high of 4.32% and ending the quarter at 4.2%. This was partly as a consequence of adjusted monetary policy expectations but also much stickier inflation than expected and unsupportive fiscal dynamics.

By-and-large dynamics seen across other major DM bond curves over Q1-24 reflected the underpin provided by USTs. This was exactly the case in the eurozone, despite central bank pricing here echoing much less resilient macro developments over the quarter. Indeed, while inflation in Europe also proved stickier – buoyed up by services, much like elsewhere – activity also remained much more insipid relative to the US, even if signs of bottoming out have become more widespread. Similarly in the UK, where inflation is still high in absolute terms – especially when compared to its closest peers – the dynamics seen since the start of the year have been more favourable. Regardless, the FOMC, the European Central Bank and Bank of England echoed each other in signalling no rush to adjust rates off their peaks and all emphasising that more data is required to assure themselves that inflation is moving sustainably to target levels over the medium term before rate cuts can be implemented.

The outlier in the DM interest rate space during Q1-24 wasn't – as one would certainly have thought – Japan, but rather Switzerland. Here, the Swiss National Bank (SNB) became the first G10 central bank in this cycle to cut rates, seemingly having contented themselves that inflation was largely a battle-won. Here, a twist in the government bond yield curve was seen, with short-end rates declining over the quarter while long-end rates rose. In Japan, the opposite course was struck, with monetary conditions tightened by the Bank of Japan (BoJ): negative interest rates and yield curve control were removed during the quarter. Favourable labour market data – especially around pay hikes – was largely responsible for the BoJ feeling more comfortable with edging slightly further away from a still extremely accommodative monetary stance. The hope for a persistent break out of consumer price deflation in Japan hasn't been as elevated as it currently is for at least a decade.

When contrasting the movements of DM nominal yield curves over Q1-24 with their real yield counterparts, an important signal is extracted. An about-turn in short-term monetary policy expectations, combined with introspection about the potential depth of easing cycles across the G10, motivated a fairly uniform increase in real yields across the term structure. In the case of the US, for example, the 10yr Treasury Inflation-Protected Securities real yield was around its lows at the beginning of the year of 1.70%, before closing just under 2.0% by quarter-end.

But over in the Emerging Markets (EM) sphere, there's been more divergence in central bank actions and posturing. For one, a few key EM central banks had already embarked on their easing cycles prior to the start of the year and found it straightforward to persist with their established policy stances (Brazil, Chile and Colombia are key examples). A notable addition to the rate-cutting segment of the EM world was Mexico, which finally implemented its much anticipated first rate cut in March.

With respect to EM local currency bond performances, there was actually fairly limited dispersion in pure bond returns in local currencies, with the exception of Uruguay (up 5.08%), for idiosyncratic reasons. At the bottom of the ranking table in local terms, was South Africa (-1.9%), Hungary (-1.8%) and Peru (-1.5%). When taking into account currency movements, this shifted a little: Chile (-11.7%), Turkey (-8.6%) and Hungary (-6.8%). EM gainers during the quarter didn't distinguish themselves particularly; with core bond market rates lifting meaningfully, there were very few localised developments within each of these markets of enough magnitude to overcome the severity of the repricing of global core rates. For the year to date (YTD) up to end March, the overall EM debt market (local currency, unhedged in USD) had returned -2.1% (+5.24% over 12m).

In contrast to the return of local EM bonds negatively impacted by currency movements and the strength of the USD, in particular over the first three months of 2024, external EM debt notched up a respectable return, with the EMBI Global Diversified Index gaining 2.0% in the quarter and +11.3% for the 12 months to end March. However – and this deserves some emphasis – these gains were very heavily tilted towards outsized returns provided by a small number of previously maligned and exceptionally poor quality issuers, with very specific, localised developments. Indeed, the most important sub-class of exceptional performers was that of defaulted or particularly fiscally stressed sovereigns, such as Ghana (+17.2%), Zambia (+18.6%), Egypt (+22.2%) and Ukraine (+25.2%). Indeed, when looking at the high-quality EM sovereign issuers (all those rated "A", for example), a modestly negative -1.2% total return was seen for the quarter, largely as a result of core interest rate movements – but still a negative all-in performance on average.

In contrast, for many other global spread markets, the first quarter of 2024 was a continuation of the favourable run seen in excess return terms in the preceding quarters. But what makes this result particularly noteworthy is both the starting levels for spreads (already quite stretched) and the prevailing macro backdrop (a re-thinking of the underlying interest rate environment). Both in the US and Europe and across the credit quality spectrum, the asset-class specific return provided by a continuation of spreads compressing was persistent, even if a bit slower than seen on average over the course of 2023.

In the US, the Investment Grade (IG) market returned an unremarkable -0.1% in total return terms for Q1-24 (vs +8.4% for 2023). But, of course, this was all down to the steep reversal of underlying interest rates. In excess return terms, the overall blue-chip credit market in the US provided +1.0% in Q1-24 (vs +4.7% for 2023). The US High Yield (HY) market reflected a similar dynamic, although outright gains from continued spread compression actually still managed to outweigh losses imposed by higher base rates. Total returns for the overall market here were +1.5% in Q1-24 (vs +13.5% for 2023), led by excess returns of +1.7% in Q1-24 (vs +9.1% for 2023). At a broad market level, both IG and HY spreads ended the quarter essentially around levels last seen during the depths of the post-Covid recovery phase (2021).

Q1-24 was a positive one for risk assets, particularly equities, and was also a widely shared phenomenon across sectors and geographies. Indeed, the primary theme remained centred around AI and semiconductor entities, although corporate reporting and idiosyncratic developments in major markets provided a basis for the support of other sectors. The notable exception to the rising tide – even if at vastly different speeds – was the real estate sector. Indeed, with such a substantial re-assessment of the Fed's interest rate path over 2024 and beyond, it certainly wasn't unusual to see property sectors take the brunt of this change of view. The FTSE EPRA NAREIT Global Index (TR) returned -1.0% in Q1-24, in contrast to the MSCI World (net TR) Index of +8.9%.

Fund activity

With respect to Fund activity over the quarter, as is mostly the case, the bulk of transactions related to the recycling of existing exposures that had drifted into modestly expensive territory and were replaced by new issues perceived to be relatively cheaply priced. This tends to occur within the higher-rated credit buckets involving short-dated issues (usually one to three years). There is also the natural recycling of maturing issues, given that the Fund tends to have a meaningful and continuous liquidity ladder spanning from one quarter to the next.

In the lead-up to the end of 2023, the Fund had been actively de-risking away from credit product as these markets had become increasingly expensive from a long-term valuation perspective. In addition, with interest rate expectations and term premia also becoming stretched, it was increasingly easy to also reduce pure interest rate risk that had been accumulated in prior times. Thus, coming into the start of 2024, the Fund had moved deliberately and progressively to reduce aggregate interest rate and credit risk based on over-stretched valuations. This proved beneficial, as interest rates swung very sharply around over the course of the first three months. Credit markets continued to have a reasonable run – and thus there was a modest opportunity cost of having disinvested here – but on a risk-adjusted basis, this still remains definitively the most appropriate course of action to have taken.

As always, the Fund found attractive idiosyncratic risks to accumulate during the quarter, although these are becoming increasingly rare to find as expensive valuations broadly sweep up spread markets, with little relief to be found. As a broad indication, the Fund has still managed to find reasonable opportunities within select sovereign EMs; certain classes of bank debt and subordinated issues from within the European insurance sector. But the true opportunity set that opened up lay within the property sector, especially on the equity side. Here, the broad re-pricing of interest rates across the vast bulk of the G10 provided a solid headwind to REITs, which had incorporated imminent and substantial interest rate cutting cycles over 2024. While there certainly remains a meaningful risk in the eventuality that DM interest rate cycles aren't initiated during 2024, the pressure that broad swathes of the real estate sectors experienced globally certainly provided good entry points to accumulate further exposure to our favoured names.

Portfolio managers

Nishan Maharaj and Seamus Vasey
as at 31 March 2024

IMPORTANT INFORMATION THAT SHOULD BE CONSIDERED BEFORE INVESTING IN THE CORONATION GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER FUND

Unit trusts should be considered a medium- to long-term investment. 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 up to 100% of its portfolio 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 yield shown is an estimate (gross of fees) 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. 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. 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. 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 A NAV prices with income distributions reinvested. 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.

HOW ARE THE BENCHMARK RETURNS CALCULATED?

The benchmark used for performance purposes is 110% of Secured Overnight Financing Rate (SOFR). From 1 December 2021 the benchmark changed from the 110% of USD 3-month LIBOR to 110% of the Secured Overnight Financing Rate (SOFR). The benchmark returns shown in this MDD will be spliced between the previously applicable index values and the new benchmark from 1 December 2021.

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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