CORONATION STRATEGIC INCOME FUND

Fund Information as at 31 May 2024

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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 0.75%.

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

Launch Date	2 July 2001
Fund Class	A
Benchmark	110% of STeFI 3-month index
ASISA Fund Category	South African – Multi-asset – Income
Income Distribution	Quarterly (March, June, September, December)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORSTIN
ISIN Code	ZAE000031522
JSE Code	CSIF

CORONATION STRATEGIC INCOME FUND

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CLASS A as at 31 May 2024

ASISA Fund Category	South African - Multi Asset - Income
Launch date	02 July 2001
Fund size	R36.05 billion
NAV	1554.71 cents
Benchmark	110% of the STeFI 3-month Index
Portfolio manager/s	Nishan Maharaj and Mauro Longano

	1 Year	3 Year
Total Expense Ratio	0.87%	0.83%
Fund management fee	0.74%	0.71%
Fund expenses	0.01%	0.01%
VAT	0.11%	0.11%
Transaction costs (inc. VAT)	0.00%	0.00%
Total Investment Charge	0.87%	0.83%

PERFORMANCE AND RISK STATISTICS

PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	700.7%	488.6%	212.1%
Since Launch (annualised)	9.5%	8.0%	1.5%
Latest 20 years (annualised)	8.7%	7.5%	1.2%
Latest 15 years (annualised)	8.3%	6.7%	1.6%
Latest 10 years (annualised)	7.5%	6.8%	0.7%
Latest 5 years (annualised)	6.8%	6.3%	0.5%
Latest 3 years (annualised)	7.5%	6.7%	0.8%
Latest 1 year	12.1%	9.1%	3.0%
Year to date	3.0%	3.7%	(0.7)%
Yield (Net of Fees)	9.4%		

RISK STATISTICS

Current		Fund
Weighted average time to maturity (credit)		2.7 years
Modified Duration		1.7 years
Modified Duration (ex Inflation Linked Bonds)		1.5 years
Since Inception	**Fund**	**Benchmark**
Annualised Deviation	2.7%	0.7%
Sharpe Ratio	0.69	
Maximum Gain	60.5%	
Maximum Drawdown	(4.2)%	
Positive Months	91.3%	
	Fund	**Date Range**
Highest annual return	18.7%	Nov 2002 - Oct 2003
Lowest annual return	2.0%	Apr 2019 - Mar 2020

CREDIT RATINGS

	% of Fund
AAA+ to A-	83.2%
BBB+ to B-	1.4%
CCC+ to C-	0.0%
CLNs	10.0%
No Rating	5.4%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
28 Mar 2024	02 Apr 2024	30.99	0.00	30.99
29 Dec 2023	02 Jan 2024	34.90	0.11	34.79
29 Sep 2023	02 Oct 2023	32.73	0.05	32.68
30 Jun 2023	03 Jul 2023	30.68	0.17	30.51

PORTFOLIO DETAIL

ASSET ALLOCATION BY INSTRUMENT TYPE

	Domestic Assets	International
Cash and Money Market NCDs	32.2%	0.4%
Floating Rate bonds	22.4%	3.6%
Fixed Rate bonds	18.7%	0.3%
Inflation-Linked bonds	11.3%	0.2%
Credit Linked Notes (CLNs)	3.0%	7.0%
Listed Property	2.8%	0.0%
Preference shares	0.1%	0.0%
Other (Currency Futures)	(2.0%)	0.0%
Total	**88.5%**	**11.5%**
Net offshore exposure after currency hedge		**2.0%**

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Banks and Insurers: NCDs & Deposits	32.6%
Government	24.9%
Banks: Senior Debt	22.9%
Other Corporates	10.0%
REITs: Equity and Debt	2.7%
Banks: Subordinated debt (>12m)	2.7%
State Owned Enterprises	2.0%
Insurers	1.7%
Coronation Global Bond Fund	1.4%
Coronation Global Strategic Income	0.9%
Banks: Subordinated debt (<12m)	0.2%
Currency Futures	(2.0%)
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%	0.2%	0.3%	0.5%	0.9%								**3.0%**
Fund 2023	1.6%	0.1%	0.7%	0.3%	(1.1)%	2.1%	1.6%	0.9%	(0.3)%	0.7%	2.1%	1.4%	**10.5%**
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%	**4.9%**
Fund 2021	0.3%	0.7%	(0.3)%	1.1%	0.7%	0.7%	0.6%	0.8%	(0.2)%	(0.1)%	0.6%	1.4%	**6.7%**
Fund 2020	0.8%	(0.1)%	(4.1)%	2.5%	1.5%	0.7%	0.4%	0.6%	0.1%	0.3%	1.2%	0.9%	**4.5%**

Issue date: 2024/06/10

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

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

Performance and fund positioning

The Fund returned 0.95% in May, bringing its 12-month total return to 12.09%, ahead of cash (8.27%) and its benchmark (9.13%) 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 May was poor. The FTSE/JSE All Bond Index (ALBI) delivered 0.75%, with the long end of the curve (12+ years) delivering a mediocre return of 0.58%. The belly of the curve (7-12 years) closed 0.74% higher, while medium-term bonds (3-7 years) returned 0.88%. Short-term bonds (1-3 years) were up 1.03%, while cash was up 0.68%. Inflation-linked bonds (ILBs) were down 0.75% for the month.

May headline inflation readings eased marginally from the previous month, with food prices declining, but core inflation remained broadly sticky. Central banks kept policy rates unchanged and remain reluctant to guide rate cut expectations, while inflation remains stubbornly above target.

US headline inflation slowed only slightly to 3.4% year on year (y/y) in April from 3.5% y/y in March, while core inflation eased to 3.6% y/y from 3.8% y/y. The headline progress is owed to continued moderation in food prices, a drop in used vehicle prices, airfares and household items. Housing, motor vehicle insurance and energy prices increased.

In emerging markets, China's headline inflation picked up to 0.3% y/y in April from 0.1% y/y in March. Rising services prices were the main contributor to the uptick, while food prices remain the main drag, along with car prices and household equipment which remain in deflation. The Producer Price Index continued its deceleration, falling by 2.5%y/y in April from a decline of 2.8% y/y in March – signalling that weak price pressures are likely to continue contributing to the CPI in coming months.

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, the economy contracted by 0.1% q/q in Q1-24 from a revised growth of 0.3% q/q in Q4-23. From the production side, seven out of eleven subsectors saw growth contrac,t and contributed negatively to overall GDP. This was only partly offset by the agricultural sector, which posted significant gains after contracting in Q4-23. When measured from the expenditure side, household consumption, government spending, gross fixed capital formation and exports all contracted. A reduction in imports provided a positive offset to the drag from all other components. Looking ahead, the easing in loadshedding should help support the figure for Q2-24, but a revival in confidence will be critical to sustaining higher rates of consumption and investment needed to boost overall growth.

The South African Reserve Bank (SARB) left the repo rate unchanged at 8.25% at the May MPC meeting. The post-meeting statement's tone was less cautious than before, with the SARB acknowledging the easing in near-term inflation forecasts and improvement in energy and logistics constraints being supportive of economic growth. Headline inflation is expected to reach 4.5% in the second quarter of 2025 and to remain within range until the end of 2026. Among the concerns of the MPC were the ongoing geopolitical tensions, a volatile exchange rate, domestic policy uncertainty, unusually elevated financial markets uncertainty, and elevated inflation expectations.

Headline inflation eased to 5.2% y/y in April from 5.3% y/y in March, while core inflation slowed to 4.6% y/y from 4.9% y/y. The main trends remain intact – food inflation continues to moderate in annual terms, fuel prices have picked up and there was a smattering of other components, including insurance and public transport costs, which helped core prices ease.

At the end of May, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 9.37% (three-year) and 9.96% (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 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. Only the shorter-dated ILBs (I2029, six years to maturity and I2033, nine years to maturity) 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 -0.01% over the month, bringing its 12-month return to 19.71%. 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 offerare 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 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 by 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, pricing transparency is important to the underlying investor. As a result, there can be significant unseen risks within fixed income funds. Investors must remain prudently focused on finding assets of which the valuations align correctly 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 31 May 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 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.

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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