# CORONATION GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER FUND

Fund Information as at 31 December 2021

CORONATION
TRUST IS EARNED™

## 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

2/10
Conservative

Maximum growth/
minimum income exposures

Growth Assets: 25%
Income Assets: 75%

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)* |
| Fund Category | Global – Multi-asset – Income |
| Regulation 28 | Does not comply |
| Investment Minimum | R5 000 or R500/m debit order |
| Bloomberg Code | CORGSIF |
| ISIN Code | ZAE000181012 |
| JSE Code | CGSUI |

** Benchmark change. Please refer to page 4 for more details.*

# CORONATION GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER FUND

CLASS A as at 31 December 2021

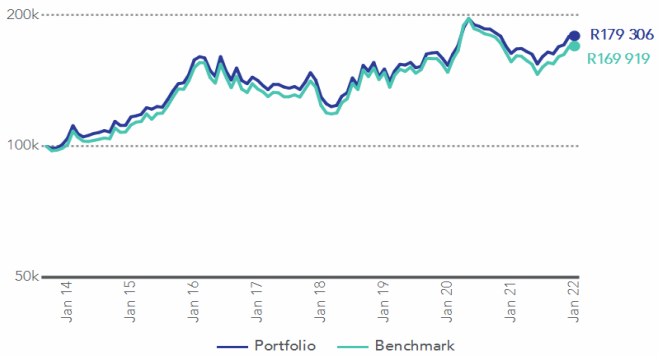
CORONATION
TRUST IS EARNED™

| | |
|---|---|
| Fund Category | Global - Multi-Asset - Income |
| Launch date | 30 August 2013 |
| Fund size | R 1.87 billion |
| NAV | 179.30 cents |
| Benchmark/Performance Fee Hurdle | 110% of SOFR* |
| Portfolio manager/s | Nishan Maharaj & Seamus Vasey |

| | 1 Year | 3 Year |
|---|---|---|
| Total Expense Ratio | 0.91% | 0.92% |
| Fund management fee | 0.80% | 0.80% |
| Fund expenses | 0.07% | 0.07% |
| VAT | 0.05% | 0.05% |
| Transaction costs (inc. VAT) | 0.01% | 0.02% |
| Total Investment Charge | 0.92% | 0.94% |

## 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) | 79.3% | 69.9% | 9.4% |
| Since Launch (annualised) | 7.3% | 6.6% | 0.7% |
| Latest 5 years (annualised) | 4.8% | 4.6% | 0.2% |
| Latest 3 years (annualised) | 6.0% | 4.8% | 1.2% |
| Latest 1 year | 9.7% | 8.7% | 1.0% |
| Year to date | 9.7% | 8.7% | 1.0% |

| | Fund |
|---|---|
| Modified Duration | 0.8 |
| Yield | 1.6% |

### PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES) (USD)

| | Fund | Benchmark | Active Return |
|---|---|---|---|
| Since Launch (unannualised) | 14.9% | 9.4% | 5.4% |
| Since Launch (annualised) | 1.7% | 1.1% | 0.6% |
| Latest 1 year (annualised) | 1.0% | 0.2% | 0.8% |
| Year to date | 1.0% | 0.2% | 0.8% |

### RISK STATISTICS SINCE LAUNCH

| | Fund | Benchmark |
|---|---|---|
| Annualised Deviation | 14.0% | 14.7% |
| Sharpe Ratio | 0.08 | 0.03 |
| Maximum Gain | 30.7% | 33.0% |
| Maximum Drawdown | (23.2)% | (25.6)% |
| Positive Months | 55.0% | 52.0% |

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

## PORTFOLIO DETAIL

### ASSET ALLOCATION BY INSTRUMENT TYPE

| | % of Fund |
|---|---|
| Developed Markets (Investment Grade) | 64.0% |
| *Fixed Rate Bonds* | *48.9%* |
| *Floating Rate Bonds* | *8.9%* |
| *Inflation Linked Bonds* | *6.2%* |
| Emerging Markets (Investment Grade) | 16.7% |
| *Fixed Rate Bonds* | *10.2%* |
| *Floating Rate Bonds* | *2.6%* |
| *Inflation Linked Bonds* | *3.9%* |
| Developed Markets (High Yield) | 0.7% |
| Emerging Markets (High Yield) | 7.9% |
| Convertibles | 6.5% |
| Listed Property | 1.6% |
| ETF | 0.1% |
| Cash & Money Market | 2.4% |
| Total | 100.0% |

### ASSET ALLOCATION BY ISSUER TYPE

| | % of Fund |
|---|---|
| Corporations | 53.1% |
| Sovereigns | 39.6% |
| Cash | 2.4% |
| Multi-National | 3.3% |
| REITS | 1.6% |
| | 100.0% |

### ASSET ALLOCATION BY RATINGS BAND

| | % of Fund |
|---|---|
| Investment Grade | 84.8% |
| Sub-investment Grade | 8.7% |
| Other instruments | 6.6% |

### TOP 5 ISSUER EXPOSURE

| | % of Fund |
|---|---|
| United States Government Treasury | 30.6% |
| Mexican Government | 4.7% |
| European Investment Bank | 2.3% |
| Credit Suisse | 2.2% |
| Citigroup | 2.1% |

### MONTHLY PERFORMANCE RETURNS (AFTER FEES)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 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% |
| Fund 2018 | (3.5)% | (1.5)% | 0.7% | 5.0% | 1.9% | 8.1% | (4.0)% | 11.3% | (3.0)% | 4.6% | (7.3)% | 4.3% | 16.0% |
| Fund 2017 | (2.8)% | (2.0)% | 2.8% | 0.0% | (1.3)% | (0.6)% | 0.9% | (1.5)% | 3.9% | 5.2% | (3.8)% | (8.6)% | (8.5)% |
| Fund 2016 | 1.7% | (0.6)% | (6.4)% | (3.1)% | 11.0% | (7.1)% | (4.9)% | 6.5% | (6.4)% | (1.7)% | 3.5% | (1.7)% | (10.3)% |

*Issue date: 2022/01/13*

*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 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.***

The Omicron variant injected some uncertainty into markets, particularly during November, but overall, the principal narrative was one of more hawkish central banks in the face of continued upward surprises in inflation. Volatility picked up across most asset classes, which is not surprising given the policy transition underway. Shorter dated government and investment grade corporate bonds underperformed cash during the quarter. The Fund returned 0.04% for the fourth quarter and 1.1% for the last 12 months, respectively, versus a benchmark return of 0.03% and 0.17%.

The US yield curve pivoted around the 10-year point, where yields ended the quarter only two basis points (bps) higher at 1.51%, while five-year yields rose 30bps and 30-year yields declined 14bps.

Headline inflation rose to its highest level in 40 years, with the consumer price index (CPI) up 6.8% year on year (y/y) in November and core inflation just shy of 5%. While supply disruptions have played a part, most noticeably in sectors such as Autos (a side effect being that second-hand auto prices are 49% higher y/y), excess demand's role in driving prices has become more apparent. In the near-term, upward pressures remain, most notably via Owner Occupied Rents, where pressures are only expected to moderate in the second quarter when base effects kick in materially. The most recent New York Federal Reserve survey of consumer inflation expectations one year from now rose to 6%, the highest since the survey began in 2013 and expectations three years out are 4%. US TIPS (inflation-linked government bonds) outperformed by around 2% in five-year maturities and 3% in 10-year maturities as the breakeven rate of inflation widened (peaking in November at 3.2% in five-year and 2.75% in 10-year maturities).

The December Federal Open Market Committee (FOMC) meeting marked a significant shift in the US Federal Reserve (Fed) outlook. Its reference to inflation as transitory was finally abandoned and views surrounding maximum employment evolved. The updated dot plot (showing members' median expectations for the Fed Fund's rate) showed a baseline of three hikes in 2022 and 2023 (both 0.625% higher than in September) and two hikes in 2024 (now 0.375% higher). For now, the terminal rate remains unchanged at 2.5%. The pace of asset purchase tapering was also doubled to $30bn a month, consistent with an end to asset purchases by the end of March 2022. The minutes of the meeting also included a discussion of quantitative tightening, acknowledging this would likely occur closer to policy lift-off than previously, giving rise to expectations that this may occur around the end of 2022. It is unclear at this stage what the amounts involved will be, but after an initial ramp-up, it's likely to be larger than the $50bn a month (UST and MBS combined) that took place during the 2017-19 taper. It's worth noting this does have the propensity to reduce the cumulative amount of rate rises required by the Fed.

Longer-dated bonds performed surprisingly well, taking heart from the projected unchanged terminal rate, still modest longer-term breakeven rates of inflation and a reallocation by pension funds from equities as the US defined benefits pension funds funding ratios rose to 96% their highest levels since 2007 (Willis Towers Watson estimates).

In Washington, US politicians took until mid-December to pass a $2.5 trillion increase in the debt ceiling that should allow the Treasury sufficient headroom until after the November 2022 mid-term elections. The supply of US Treasuries had been constrained by the delay in approving the increase, helping to suppress yields and leading to a record $1.9 trillion to be parked with the Fed under its reverse repo operations. President Biden signed off on a $1.2 trillion ($550bn new funds) infrastructure bill, but to date, the second Build Back Better bill has been unable to muster sufficient votes.

Core European bond yields were little changed over the quarter, with shorter-dated bonds marginally outperforming the US and longer-dated bonds lagging. Bonds issued at the periphery lagged as investors reflected on the likelihood of less support from asset purchases (Italian bonds suffered most as political uncertainty created by Presidential elections exacerbated moves), with the Pandemic Emergency Purchase Programme set to come to an end at the end of March and the European Central Bank's Asset Purchase Programme only increasing by a modest amount. The expectation is that rates will only rise after asset purchases cease, which is expected to be sometime in early 2023. In the meantime, inflation continues to surprise to the upside (All-items Harmonised Index of Consumer Prices of 5% y/y in Dec) for the most part due to surging energy prices (with Russian tension adding to uncertainty), which are 26% higher y/y, (house prices, which are not currently captured in inflation have also seen robust increases). With the Omicron variant leading to renewed mobility restrictions and energy prices likely to depress industrial production during the first half of 2022, inflationary pressures are likely to prove less entrenched than in the US.

In the UK, it was a similar story to the US, inflation continuing to surprise on the upside (5.1% HICP index and 7.1% RPI) across a broad range of goods. Labour shortages post Brexit have been driving higher wage settlement, and once again, higher energy costs and the associated cost of living (alongside rising house prices) will fuel demand for more. The Bank of England could now move base rates as soon as February, with four moves, like the US, priced in for 2022.

Within emerging markets, returns were volatile. China and Asia generally outperformed, but elsewhere markets struggled as inflationary pressures continued to surprise to the upside, prompting central banks to continue raising rates and fuelling expectations of further tightening. Emerging market currencies outside Asia were also weak, with political uncertainty a significant factor. Elections in Latin America have continued to see leftist presidents elected at the expense of the moderate centre. With global investors now relatively underweight emerging markets, illiquidity in some segments does throw up opportunities, and we do remain open to opportunities, both in hard and local currency, especially where they are relatively short-dated in nature. More recently the Fund exposure to Mexico has risen because of a holding in short-dated Mexican inflation line bonds and short-dated exposure in euros and sterling to Pemex, the state-owned oil and gas company.

Investment-grade corporate bonds lagged government bonds by around 0.4% during the quarter, while high yield issuers outperformed by around 1%. November proved to be a pivotal month as spreads widened by the most during 2021, with the Omicron variant causing sectors susceptible to mobility movement to underperform and swap spreads widen materially (especially in Europe) as investors sought to hedge rising rate risks. The recovery in December was among the largest outperformance of corporates versus government bonds all year, but the rebound in higher quality bonds was not quite enough to recover November's losses. While investment-grade spreads within Asia have remained relatively well behaved, the high yield sector remains weak as several Chinese property companies have defaulted. Without direct government support, the sector will continue to struggle as liquidity dries up and more redemptions become due. The overall credit duration of the Fund remained relatively low during the quarter at around 1.3 years. We slightly reduced its high yield exposure, principally via ETFs, while exposure to BBBs increased. We also reduced several shorter-dated positions where breakeven protection appeared minimal. In November, the spread widening was welcomed, and we used the wider spreads, particularly within Europe and the UK, in conjunction with moves in the FX basis, to add positions into the year-end. The Fund's credit hedges matured but were not replaced given the modest levels of portfolio risk and heightened levels of implied volatility, which made options relatively expensive into the year-end.

Property performed well during the fourth quarter, apart from a brief spell in November when uncertainty surrounding Omicron was at its peak, with the US and UK particularly strong. At an index level, the EPRA/NARIET Developed Index was up 10.4%, bringing the return for 2021 to 27.2%. During October, we added to the Fund's holding of Instone, a German developer, and added Vici, the US gaming operator and owner of Caesars Palace, and reduced our holding slightly in Equites Property Fund. In November, we added UK Commercial Property REIT, which trades at a healthy discount to its current NAV. At the end of December, property represented 1.6% of the Fund versus 1.3% at the end of September.

The US dollar was marginally stronger on a broad-based trade-weighted index within foreign exchange markets but was 3% higher against the yen and 2% versus the euro. The Chinese Renminbi was once again a noticeable outperformer, benefitting from attractive real yields and an improved current account. Within emerging markets, Asian currencies appreciated while those in Latin America, Africa and Eastern Europe were weaker as politics and strong inflation outturns undermined confidence. The Fund's FX options matured during December; around 35% of the Fund's assets were non-US dollar-denominated at the year-end, but these were fully hedged into US dollars.

Omicron disruption within developed markets is likely to ease towards the end of the quarter. From a growth and risk perspective, it remains to be seen whether China's current zero-Covid-19 strategy can be maintained without significant economic disruption. A more hawkish Fed is likely to keep upward pressure on real rates and inject great volatility into markets. This will create a more challenging backdrop for riskier assets than in recent years. We expect the Fed's actions to ripple out along the yield curve and believe long-dated yields remain too low currently. The outlook for the US dollar remains finely balanced with high real yields on a relative basis key to its strength. This is especially true versus some higher-yielding currencies, which will become more attractive when there is greater certainty over the Fed's path on interest rates and asset purchases. Corporate fundamentals and the demand backdrop for corporate bonds remains healthy and should provide a backstop for spreads, but November's move is a reminder that breakeven protection remains low and spread volatility is likely to pick up as central banks taper asset purchases. The Fund duration remains relatively lower and includes inflation-linked assets. As bond yields rise and breakeven protection increases, we are likely to modestly increase the Fund's exposure to rates, particularly in shorter maturities. The recent widening in credit spreads also gives us the opportunity to deploy resources and lock in returns at more attractive levels. Overall, the outlook for returns has improved for the Fund.

**Portfolio managers**
**Nishan Maharaj and Seamus Vasey**
as at 31 December 2021

## 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. 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 Investment Management International (Pty) Ltd (FSP45646), 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.

*Benchmark change due to LIBOR being discontinued: The publication of LIBOR ceased on 31 December 2021 for most of the currency and term combinations that are currently in use. As a result USD LIBOR has been replaced by the Secured Overnight Financing Rate ("SOFR") in the Coronation Global Strategic USD Income [ZAR] Feeder Fund benchmark. This change is effective from 1 December 2021. SOFR is an emerging standard for short-term USD interest rates in global financial markets and is calculated by the New York Federal Reserve. The new Global Strategic USD Income [ZAR] Feeder Fund benchmark will be: 110% of the Secured Overnight Financing Rate (SOFR).

## 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. 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 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 current financial year (updated annually). The 3 year TER is for a rolling 36-month period to the last 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

This document is for information purposes only and does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe for or purchase any particular investment. Opinions expressed in this document may be changed without notice at any time after publication. We therefore disclaim any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of or reliance upon the information.