CORONATION STRATEGIC INCOME FUND

Fund Information as at 30 June 2021

CORONATION
TRUST IS EARNED™

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.

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%) 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.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

2/10
Conservative

Maximum growth/
minimum income exposures

- Growth Assets: 25%
- Income Assets: 75%

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 0.65%.

The annual management fee will reduce from 0.85% to 0.65% for the twelve-month period starting 1 April 2021 and ending 31 March 2022. From 1 April 2022, the management fee will be 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
Fund Category	South African – Multi-asset – Income
Regulation 28	Complies
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

CORONATION
TRUST IS EARNED™

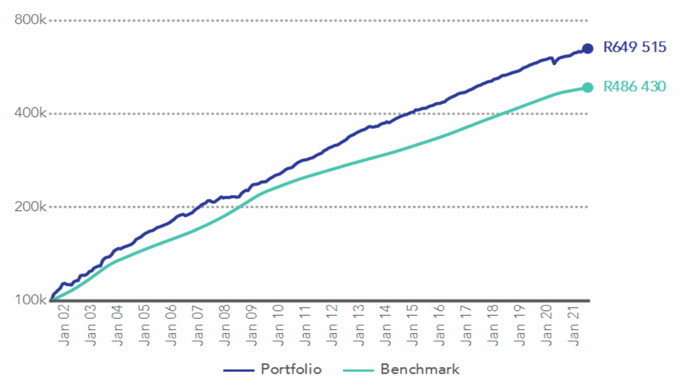
CLASS A as at 30 June 2021

Fund category	South African - Multi Asset - Income
Launch date	02 July 2001
Fund size	R41.91 billion
NAV	1562.70 cents
Benchmark/Performance Fee Hurdle	110% of the STeFI 3-month Index
Portfolio manager/s	Nishan Maharaj and Mauro Longano

	1 Year	3 Year
Total Expense Ratio	0.98%	0.98%
Fund management fee	0.84%	0.84%
Fund expenses	0.01%	0.02%
VAT	0.13%	0.13%
Transaction costs (inc. VAT)	0.00%	0.01%
Total Investment Charge	0.98%	0.99%

PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PERFORMANCE AND MODIFIED DURATION (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	549.5%	386.4%	163.1%
Since Launch (annualised)	9.8%	8.2%	1.6%
Latest 20 years (annualised)	9.8%	8.2%	1.6%
Latest 15 years (annualised)	8.6%	7.5%	1.1%
Latest 10 years (annualised)	8.1%	6.5%	1.6%
Latest 5 years (annualised)	7.3%	6.9%	0.5%
Latest 3 years (annualised)	6.6%	6.2%	0.4%
Latest 1 year	6.8%	3.9%	2.9%
Year to date	3.3%	1.9%	1.4%

	Fund
Modified Duration	1.9
Modified Duration (ex Inflation Linkers)	1.4
Yield	5.6%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	2.7%	0.7%
Sharpe Ratio	0.73	N/A
Maximum Gain	60.5%	N/A
Maximum Drawdown	(4.2)%	N/A
Positive Months	92.5%	N/A

	Fund	Date Range
Highest annual return	18.7%	Nov 2002 - Oct 2003
Lowest annual return	2.0%	Apr 2019 - Mar 2020

PORTFOLIO DETAIL

ASSET ALLOCATION BY INSTRUMENT TYPE

	Domestic Assets	International Assets
Cash and Money Market NCD's	24.7%	0.3%
Fixed Rate Bonds	21.6%	7.6%
Floating Rate Bonds	27.3%	2.5%
Inflation Linked Bonds	13.0%	0.3%
Listed Property	3.9%	0.3%
Preference Shares	0.2%	0.0%
Preference Shares	(1.7)%	0.0%
Total	89.0%	11.0%

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	20.4%
State Owned Entities	1.7%
Banks and Insurers: NCDs and Deposits	25.8%
Banks: Senior Debt	16.7%
Banks: Subordinate Debt (<12m)	9.4%
Banks: Subordinate Debt (>12m)	4.8%
Insurers	2.7%
Other corporates	12.8%
REITS	5.7%
Preference Shares	0.2%
Coronation Global Strategic Income	0.5%
Coronation Global Bond Fund	0.9%
Other (Currency Futures)	(1.7)%

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic of South Africa Government Bonds	18.8%
ABSA Bank Ltd	11.9%
Standard Bank of South Africa	11.3%
FirstRand Limited	9.2%
Nedbank Ltd	9.0%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Jun 2021	01 Jul 2021	22.28	0.05	22.23
31 Mar 2021	01 Apr 2021	18.06	0.25	17.81
31 Dec 2020	04 Jan 2021	19.05	0.06	18.99
30 Sep 2020	01 Oct 2020	16.63	0.07	16.55

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2021	0.3%	0.7%	(0.3)%	1.1%	0.7%	0.7%							**3.3%**
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%**
Fund 2019	1.3%	0.6%	0.6%	1.0%	0.5%	0.8%	0.4%	0.9%	0.8%	0.5%	0.3%	0.5%	**8.4%**

Issue date: 2021/07/14

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

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

The Fund returned 0.7 % in June, bringing its total return to 6.8 % for the 12-month period. This return is ahead of cash (3.5%) and its benchmark (3.9%). Celebrating its 20-year anniversary in July, the Fund's annualised and cumulative return ahead of its benchmark since inception is 1.6% and 163.1% respectively.

South Africa's (SA) recovery has been elevated by the current global environment, translating into strong asset price performance. The rand is up c.3% against the US dollar this year, with most of that performance coming through in the second quarter of the year (Q2-21). This is pretty much in line with its emerging market peer group (except Brazil, which has enjoyed a more significant recovery in its currency following the commencement of its pre-emptive rate hiking cycle), but what has set SA apart is the performance of its local bonds. Despite the yield on the 10-year bond being 30 to-40 basis points (bps) higher since the beginning of the year, the FTSE/JSE All Bond Index (ALBI) has returned 5.0% this year (6.9% over the 2Q-2021). This has been led by the strong performance of bonds with a maturity of >12 years, as the yield curve has continued to flatten. Inflation-linked bonds (ILBs) had a poorer quarter returning c.3% but remain ahead of ALBI returns, year to date (7.7%). Both ALBI and ILB returns remain well ahead of cash for the quarter (0.9%) and the year (1.7 %).

June saw developed market central banks maintaining monetary policy rates and revising growth expectations upwards following increased economic activity and success in rolling out the vaccine programme. In emerging markets, a few central banks surprised the market with rate hikes as inflation pressure continues to rise.

In the US, the Federal Reserve Board (the Fed) left policy rates unchanged at 0.00% to 0.25% and maintained the size of the asset purchasing programme, as expected by the market. The post-meeting communication highlighted growth risks to the upside as economic data has positively surprised expectations. Importantly, though, the Fed turned more cautious on inflation, revising its 2020 forecast up to 3.4% from 2.4% at the previous meeting – although the gains are still deemed likely to be temporary. Headline inflation accelerated to 5% year on year (y/y) in May from 4.2% y/y in April. The uptick was the result of a combination of factors, including low base effects, increased energy prices and an extension of high used vehicle prices. Core inflation rose to 3.8% y/y in May from 3% y/y in April.

In emerging markets, China's headline inflation increased to 1.3% y/y in May from 0.9% y/y in April. The upward pressure came from a mix of factors, namely, increases in the cost of non-food goods, transportation, communication, clothing, and education. Core inflation increased to 0.9% y/y in May vs 0.7% y/y in April. Elsewhere in emerging markets, central banks in Brazil, Mexico, Russia and Hungary hiked policy rates as inflation concerns mount. Inflation pressures are seen to be on the upside, owing to base effects, increasing demand and rising commodity prices.

The rand was stronger over the quarter but weaker over June, in line with the performance of high yielding emerging market assets. This was further buoyed by positive developments on the growth and political front in SA, which helped the rand end the quarter at US$1/R14.28. The Fund maintains its healthy exposure to offshore assets. When valuations are stretched, it 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 the first quarter of 2021 (Q1-21), SA's GDP was stronger than expected at 4.6% quarter on quarter (q/q) seasonally adjusted annualised (saa), compared to a revised growth of 5.8% q/q saa in the fourth quarter of 2020. Positive contributions came from financial and business services, mining, manufacturing, transport and trade sectors. From the demand side, household and government spending slowed down but remained positive contributors to GDP, while inventories provided a strong boost as these were drawn down at a slower pace than before. The new restrictions could dampen third-quarter GDP this year, despite efforts made to limit the impact on the broader economy.

Headline inflation accelerated to 5.2% y/y in May from 4.4% y/y in April. Core inflation was stable at 3.1% y/y in May vs 3.0% y/y in April. The inflation uptick largely reflects base effects related to fuel and somewhat higher food and apparel prices. The South African Reserve Bank left rates unchanged in May, but more recent comments from Monetary Policy Committee members suggest some growing caution about the outlook for inflation.

At the end of June, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 6.07% (three-year) and 7.14% (five-year), significantly higher than the close at the end of the previous month. This was largely driven by expectations for higher inflation, reduced stimulus, and quicker rate normalisation speeds across global emerging and developed markets. However, SA's more moderate 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.

Global monetary policy normalisation will take the form of the tapering of bond asset purchase programmes, followed by a rise in policy rates. This will result in global bond yields moving higher over the next few years. Historically, the pace and magnitude of the rise in global bond yields have had significant repercussions for the local bond market. More specifically, the more sudden and sizable the sell-off in global bond yields, the larger the rise in local bond yields. Currently, the US 10-year Treasury Bill (a proxy for global bond yields) is at 1.50%, and pricing in the forward market puts expectations for this rate to be at 2% to 2.25% over the next two to three years.

The magnitude of the move is not large by historical standards, although the pace of the repricing will remain unpredictable. Local bonds have generally had a high beta (a relative measure of volatility between two assets) with US 10-year bonds. However, the spread between SA bonds and US bonds are at historically wide levels, primarily due to the deterioration in SA's fiscal metrics. It is plausible that with SA's fiscal metrics recovering, this spread is too wide and should narrow, implying that even if US bonds were to sell-off, the equivalent sell-off in SA bonds should not be severe. As the spread has widened, the beta between the two assets has decreased; that is, the influence of US rates on SA rates has diminished. This suggests that the risk premium embedded in SA bonds should absorb a significant amount of the widening in global bond yields.

The prospects for the local economy have improved as reform progress has gathered momentum, and global developments have provided tailwinds to the local recovery. Inflation is moving higher but should remain under control despite uneasiness around global inflation. The recovery in growth should gain more traction and spill into next year, which will provide more breathing room for the fiscus. SA government bonds (SAGBs), despite their recovery in Q1-21, still embed a significant risk premium relative to cash. The steepness of the yield curve makes the 12- to 15-year area attractive, even if the local rate hiking cycle starts sooner than expected. We continue to favour positions to SAGBs focused in the 12- to 15-year area of the curve and allocations to ILBs with a maturity of less than eight years.

The local listed property sector was down 3% over June, bringing its 12-month return to 25.6%, and has been the largest drag on the Fund's performance. The balance sheet concerns coming out of the Covid-19 crisis have subsided somewhat as companies have managed to introduce dividend pay-out ratios (with some withholding dividends entirely) and sell assets. Going forward, operational performance will remain in the spotlight as an indicator of the pace and depth of the sector's recovery. We believe that one must remain cautious, given the high levels of uncertainty around the strength and durability of the local recovery. However, certain counters are showing value, given their unique capital structures and earnings potential. These counters remain a core holding within the Fund.

The FTSE/JSE Preference Share Index was down 4.2% over the month, bringing its 12-month return to 14.8%. Preference shares offer a steady dividend yield linked to the prime rate and, depending on the risk profile of the issuer, and currently yield between 8% and 10% (subject to a 20% Dividends Tax, depending on the investor entity). The change in capital structure requirements mandated by Basel III will discourage banks from issuing preference shares, limiting availability. In addition, most of the bank-related preference shares trade at a discount, which enhances their attractiveness for holders from a total return perspective and increases the likelihood of bank buybacks. Despite attractive valuations, this asset class will continue to dissipate, given the lack of new issuance and because its associated risks are classified as eligible loss-absorbing capital (only senior to equity). The Fund maintains select exposure to certain high-quality corporate preference shares but will not actively look to increase its holdings.

We remain vigilant of the risks emanating 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 6.35% remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected Fund performance over the next 12 months.

As is evident, we remain cautious in our management of the Fund. We continue to invest only in assets and instruments that we believe have the correct risk and term premium to limit investor downside and enhance yield.

Portfolio managers
Nishan Maharaj and Mauro Longano
as at 30 June 2021

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 fund is managed in line with Regulation 28 limits, although it is not required as per the fund's supplemental deed. 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.

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) (FSP 548) Ltd, 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. 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 September 2020 (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

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