

## 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



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 0.85%.

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](http://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

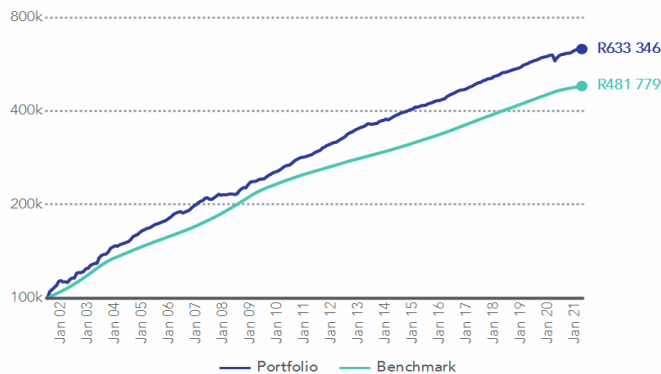
CLASS A as at 31 March 2021

<b>Fund category</b>	South African - Multi Asset - Income
<b>Launch date</b>	02 July 2001
<b>Fund size</b>	R43.01 billion
<b>NAV</b>	1541.87 cents
<b>Benchmark/Performance</b>	110% of the STeFI 3-month Index
<b>Fee Hurdle</b>	
<b>Portfolio manager/s</b>	Nishan Maharaj and Mauro Longano

	1 Year	3 Year
Total Expense Ratio	0.98%	0.99%
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%	1.00%

## 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)	533.4%	381.8%	151.6%
Since Launch (annualised)	9.8%	8.3%	1.5%
Latest 15 years (annualised)	8.4%	7.6%	0.9%
Latest 10 years (annualised)	8.2%	6.6%	1.6%
Latest 5 years (annualised)	7.3%	7.1%	0.3%
Latest 3 years (annualised)	6.3%	6.5%	(0.2)%
Latest 1 year	9.1%	4.4%	4.7%
Year to date	0.8%	0.9%	(0.2)%

Fund	
Modified Duration	1.8
Modified Duration (ex Inflation Linkers)	1.4
Yield	5.8%

## RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	2.7%	0.7%
Sharpe Ratio	0.71	N/A
Maximum Gain	60.5%	N/A
Maximum Drawdown	(4.2)%	N/A
Positive Months	92.4%	N/A

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

## 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)%										0.8%
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%

## PORTFOLIO DETAIL

## ASSET ALLOCATION BY INSTRUMENT TYPE

	Domestic Assets	International Assets
Cash and Money Market NCD's	18.1%	0.4%
Fixed Rate Bonds	24.9%	6.5%
Floating Rate Bonds	29.8%	2.4%
Inflation Linked Bonds	13.6%	0.3%
Listed Property	3.6%	0.4%
Preference Shares	0.2%	0.0%
<b>Total</b>	<b>90.1%</b>	<b>9.9%</b>

## ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	25.7%
State Owned Entities	1.5%
Banks and Insurers: NCDs and Deposits	19.2%
Banks: Senior Debt	15.1%
Banks: Subordinate Debt (<12m)	10.4%
Banks: Subordinate Debt (>12m)	7.9%
Insurers	2.6%
Other corporates	12.1%
REITS	3.9%
Preference Shares	0.2%
Coronation Global Strategic Income	0.5%
Coronation Global Bond Fund	0.9%

## TOP 5 ISSUER EXPOSURE

	% of Fund
Republic of South Africa Government Bonds	23.7%
Standard Bank of South Africa	12.2%
FirstRand Limited	10.9%
ABSA Bank Ltd	10.1%
Nedbank Ltd	6.1%

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
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
30 Jun 2020	01 Jul 2020	19.10	0.06	19.04

**Please note that the commentary is for the retail class of the fund.**

The Fund returned 0.75% in the first quarter (Q1-21), bringing its total return to 9.12% for the 12-month period. This return is ahead of cash (4%) and its benchmark (4.4%).

Progress is rarely made in a straight line, and there are always bumps in the road, but ultimately what matters is the direction you are heading in. It is just over a year since the World Health Organisation declared Covid-19 to be a global pandemic, and the world went into lockdown. The difference now, however, is that we have several viable vaccines that will help stave off serious infection, lessen the pressure on healthcare systems and, hopefully, return our lives to some version of normality. There are concerns that new variants might reduce the efficacy of vaccines; the vaccines might not be rolled out expeditiously; and that second, third and fourth waves will delay the global recovery. Ultimately, there is light at the end of the tunnel, and it doesn't look like another train!

South Africa (SA) remains precariously placed in the global recovery due to its stretched public finances, a glacial pace of reform implementation and the leisurely rollout of its vaccination programme. Following a strong start to the year, SA government bonds (SAGBs) gave back a portion of their initial gains due to concerns that the large amount of global fiscal and monetary stimulus would stoke inflation, hence forcing a quicker normalisation in policy rates. The benchmark 10-year SAGB rallied to 8.75% by the beginning of February but sold off by over 100 basis points (bps) by the end of Q1-21, ending at 9.89%. This resulted in the All Bond Index (ALBI) returning -1.7% over the quarter, anchored by the underperformance of the 7- to 12-year area of the curve. SAGB yield movements were not dissimilar to the experience in many emerging markets around the world as a reaction to a circa 80bps selloff in US 10-year yields. Conversely, South African inflation-linked bonds (ILBs) produced a return of 4.6% in Q1-21 as real yields held onto their gains since the beginning of the year. Due to March 2020 being the peak of the Covid-19 crisis in financial markets, the one-year performance of SAGBs and ILBs look spectacular at 17% and 16.7%, respectively.

In the US, the Federal Reserve Board (the Fed) left the funding rate range unchanged at 0.00%-0.25% and maintained the current asset purchasing programme pace and size. The Fed reiterated its stance of improvement in employment and inflation, reaching their target ranges being necessary precursors of interest rate hikes. US headline inflation accelerated to 1.7% year on year (y/y) in February from 1.4% y/y in January. Upward inflation pressure came from increases in energy costs and medical care service prices. Prices for food, vehicles and apparel were slightly lower than January's reading. Core inflation moderated slightly to 1.3% y/y in February from 1.4% y/y in January.

In emerging markets (EM), China's headline inflation contracted by 0.2% y/y in February from a contraction of 0.3% y/y in January. This deflation is on the back of falling meat prices, along with a drop in transport, apparel and utility costs. Elsewhere in emerging markets, the rollout of the vaccine in 2021 has been slow but is expected to contribute to further recovery in economic activity in the latter part of the year. Monetary policy settings have become more mixed, with some emerging market central banks signalling broad accommodation, while Russia, Turkey and Brazil's central banks all raised interest rates in March.

The rand was relatively unchanged over Q1-21 despite broader EM currency weakness, ending at US\$1/R14.78. The onset of the second wave in many parts of the world and increased developed market bond yields weighed on sentiment. However, underlying economic data continued to suggest better than previously expected global growth outcomes. In SA, specifically, this has led to slightly improved expectations, supporting the currency outperformance over February. 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 SA, headline inflation slowed to 2.9% y/y in February from 3.2% y/y in January. The decline came from a moderation in food prices and a decrease in medical insurance costs. Core inflation fell more sharply, from January's 3.3% y/y to 2.6% y/y in February. Inflation pressure in the economy remains benign, and both core and headline inflation are anticipated to remain close to the 4.5% mid-point of the inflation target range.

At the end of March, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 5.83% (three-year) and 7.08% (five-year), much higher than the close at the end of the previous quarter. This was in large part driven by a repricing in global rate expectations following the selloff in developed market bonds. Shorter-dated NCDs have been pulled lower due to the significant interest rate cuts, a recovery in bond yields and a tightening of credit spreads. Short-dated fixed-rate NCDs continue to hold appeal due to the inherent protection offered by their yields and our expectations of a lower repo rate. 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.

SA's Budget speech in February was an important road marker on South Africa's recovery path. Following better-than-expected tax revenue receipts, the National Treasury presented a picture of public finances that was much better than the October 2020 Medium-Term Budget Policy Statement but still not indicative of debt stabilisation. It was very encouraging that the tax windfall was not used to increase expenditure in other areas but instead used to reduce the borrowing requirement over the forecast period. This resulted in a reduction in weekly nominal fixed-rate issuance by circa 30%, which was welcomed by markets and resulted in the relative outperformance of the 12-year+ area of the curve. However, implementation risk remains high as all the expenditure consolidation is focused on a three-year public sector wage freeze, and public sector unions have already expressed their disapproval.

In addition, State-owned enterprises (SOEs) and other local municipalities are a further risk to expenditure, given their poor health going into the Covid-19 crisis. Long-term austerity is not palatable in SA, given the size of the expenditure adjustment needed to right the ship. To keep from sinking, SA needs to increase its potential growth rate by accelerating its reform process and involving the private sector in this process.

There are early signs that the private sector is starting to contribute to investment but, for this to be sustained, policy needs to be transparent and stable. It is also essential that previous perpetrators of corruption are brought to justice to show that there are real consequences for malfeasance. Unfortunately, given the country's poor track record, investor confidence remains depressed, which is abundantly reflected in the elevated level of bond yields and the steepness of the yield curve.

The positive showing in the February Budget should have resulted in an extensive rally and flattening in the SA bond curve. However, due to the selloff in global rates, this was cut short and reversed. In January 2021, short-term inflation expectations in the US, as reflected by market-implied breakeven inflation expectations (the difference between US nominal and ILB yields), moved materially above 2%, peaking at 4% for one-year forward inflation and 2.5% for five-year forward inflation. This now sits at around 2.3% to 2.5% across all maturities, which means that the market expects inflation in the US to exceed the 2% average inflation target set by the Federal Reserve Board (the Fed). This change in inflation expectations was driven by the Fed's revision to average inflation targeting (i.e., targeting average inflation rather than aiming to keep it at a target point); the unprecedented level of monetary policy stimulus (zero base rates and the bond-buying programme); and increased fiscal stimulus (approval of President Joe Biden's \$1.9 trillion support package and the proposal of a further \$2.2 trillion infrastructure spending package).

In SA, during the last taper tantrum, yields were materially lower (6.8% in the 10-year area as of March 2013), the yield curve was relatively flat (5y5y rates were trading 100bps above the 10-year area), and local inflation was already at 6%. This time around, yields are close to 10%, and the curve is materially steeper (5y5y rates are 400bps above the 10-year), and inflation is at 3%. In addition to this, SA's current account is in surplus (vs a 6% deficit in 2013), and foreign ownership of the local bond market is sub-30% (vs above 40% in 2013). This suggests that not only are valuations materially more attractive, providing a larger buffer, but the need for external funding of the deficits is also much lower.

SA remains in a delicate balancing act. In the short term, inflation will remain under control, and growth will pick up, supporting a cyclically better economic outcome. However, the fiscal accounts are problematic, given the high levels of debt. While the cyclically better economic outcomes have provided some breathing room, there needs to be an acceleration in growth-enhancing reforms, more emphasis on reviving private sector confidence to encourage investment, and no deviation from current expenditure plans. The recent move higher in developed market bond yields has sparked concerns of a replay of the 2013 taper tantrum. However, SA bond valuations are much more generous now with a much-reduced external funding requirement. We view SAGBs as an attractive investment opportunity and would still advocate an overweight position relative to the benchmark for a bond fund. In addition, we would also allocate to four-year ILBs and steer clear of corporate credit spreads at current levels.

The local listed property sector was up 6.4% over the quarter, bringing its 12-month return to 34.4%. Listed property has been the largest drag on the Fund's performance. The balance sheet concerns coming out of the crisis have subsided somewhat as companies have managed to introduce dividend payout ratios, withhold dividends in some cases 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 up 2.1% over the quarter, bringing its 12-month return to 30.1%. Preference shares offer a steady dividend yield linked to the prime rate and, depending on the risk profile of the issuer, 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. This will limit 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 of its associated risks being 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 5.8% 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 March 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](http://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](http://www.coronation.com)

#### IMPORTANT INFORMATION REGARDING TERMS OF USE

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