CORONATION STRATEGIC INCOME FUND

Fund Information as at 31 December 2022

CORONATION
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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.

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 0.75%.

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
Regulation 28	Managed in accordance with Reg 28 limits
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
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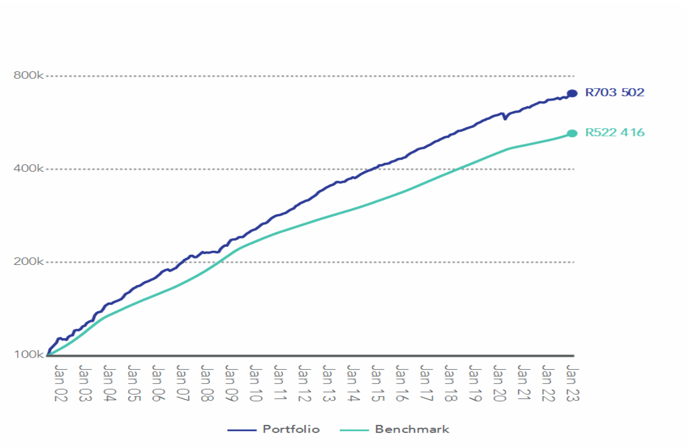
CLASS A as at 31 December 2022

ASISA Fund Category	South African - Multi Asset - Income
Launch date	02 July 2001
Fund size	R37.46 billion
NAV	1543.10 cents
Benchmark	110% of the STeFI 3-month Index
Portfolio manager/s	Nishan Maharaj and Mauro Longano

	1 Year	3 Year
Total Expense Ratio	0.81%	0.89%
Fund management fee	0.69%	0.76%
Fund expenses	0.01%	0.01%
VAT	0.10%	0.11%
Transaction costs (inc. VAT)	0.00%	0.00%
Total Investment Charge	0.82%	0.89%

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)	603.5%	422.4%	181.1%
Since Launch (annualised)	9.5%	8.0%	1.5%
Latest 20 years (annualised)	9.0%	7.7%	1.3%
Latest 15 years (annualised)	8.2%	7.0%	1.2%
Latest 10 years (annualised)	7.2%	6.4%	0.8%
Latest 5 years (annualised)	6.3%	5.9%	0.4%
Latest 3 years (annualised)	5.4%	4.8%	0.5%
Latest 1 year	4.9%	5.3%	(0.4)%
Year to date	4.9%	5.3%	(0.4)%

	Fund
Modified Duration	1.7
Modified Duration (ex Inflation Linkers)	1.4
Yield (Net of Fees)	8.7%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	2.7%	0.7%
Sharpe Ratio	0.70	N/A
Maximum Gain	60.5%	N/A
Maximum Drawdown	(4.2)%	N/A
Positive Months	91.5%	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	18.8%	0.2%
Fixed Rate Bonds	27.9%	7.9%
Floating Rate Bonds	25.0%	6.8%
Inflation Linked Bonds	14.3%	0.2%
Listed Property	3.6%	0.7%
Preference Shares	0.1%	0.0%
Other (Currency Futures)	(5.6)%	0.0%
Total	84.2%	15.8%

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	25.4%
State Owned Entities	3.1%
Banks and Insurers: NCDs and Deposits	21.8%
Banks: Senior Debt	20.5%
Banks: Subordinate Debt (<12m)	3.6%
Banks: Subordinate Debt (>12m)	6.5%
Insurers	2.3%
Other corporates	12.9%
REITS: Equity	4.3%
REITS: Debt	2.9%
Preference Shares	0.1%
Coronation Global Strategic Income	0.7%
Coronation Global Bond Fund	1.1%
Other (Currency Futures)	(5.1)%

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic of South Africa Government Bonds	23.0%
Standard Bank Of SA Ltd	14.9%
FirstRand Limited	11.5%
Nedbank Ltd	10.4%
Absa Bank Ltd	9.5%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Dec 2022	03 Jan 2023	27.93	0.11	27.82
30 Sep 2022	03 Oct 2022	27.66	0.02	27.64
30 Jun 2022	01 Jul 2022	24.38	0.19	24.19
31 Mar 2022	01 Apr 2022	20.92	0.04	20.88

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
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%**
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%**
Fund 2018	0.4%	0.4%	1.1%	1.0%	0.1%	0.5%	0.6%	0.7%	0.5%	0.5%	0.4%	0.9%	**7.3%**

Issue date: 2023/01/16

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.

Performance

South Africa (SA) fared relatively better than its counterparts during much of the year, despite the worst bout of loadshedding on record. December, however, brought fresh political concerns as the "Farmgate" scandal threatened to derail President Cyril Ramaphosa's presidency and his campaign for a second term as ANC president. Fixed income recorded a torrid year as all the instruments within the asset class underperformed cash (+4.82%) over the period. SA 10-year bonds closed the year at 10.86%, almost 100 basis points (bps) higher than the close at the end of 2021, and at a level not seen since the onset of the Covid crisis in March 2020. Despite a high starting yield, the FTSE/JSE All Bond Index (ALBI) generated a total return of 4.26% for the year, which was not only below cash but also marginally behind inflation-linked bonds (ILBs) that delivered a total return of 4.54%. In US dollars, the ALBI was down -2.38% in 2022, which is significantly better than global bonds that were down -18.26% (as measured by the FTSE World Government Bond Index).

The Fund returned 0.69% in December, bringing its 12-month total return to 4.91%, which is ahead of cash (4.82%) but lagging its benchmark (5.3%) over the same period. This monthly return must be seen in the context of returns from the investable asset classes, all of which underperformed cash except for offshore (USD) cash. For the quarter, the Fund returned 3.46%, well above cash (1.5%) and its benchmark (1.65%). 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.

Fund positioning

December saw a moderation in the pace of rate hikes from major central banks. However, while inflation is seen to have peaked in most developed economies, the risk of persistence remains high as the war in Ukraine will continue to threaten energy prices and keep food prices elevated. Additionally, the broader base of price pressures, which have emerged in many developed countries, are likely to take time to subside.

In the US, the Federal Reserve Board (the Fed) increased the policy rate by 50bps at its December Monetary Policy Committee (MPC) meeting, taking the target rate range to 4.25%-4.5%. This brought cumulative rate hikes since the hiking cycle began to 425bps. The move to a smaller hike was not a market surprise, but Fed Chairman Jerome Powell warned that the Central Bank's job is not yet complete. Future rate decisions will consider the cumulative tightening that has already been implemented, the lag with which monetary policy affects economic activity, general inflation, and developments in the economic and financial markets. The market now expects the Fed rate to peak at 5.0% in 2023, as expectations are for inflation to ease from here. US headline inflation slowed to 7.1% year on year (y/y) in November from 7.7% y/y in October, while core inflation decreased to 6.0% y/y in November from 6.3% y/y in October. Energy costs and food inflation slowed down while vehicle prices and costs for shelter had a slight increase, implying faster moderation in headline inflation than that of core prices.

In emerging markets, China's headline inflation slowed to 1.6% y/y in November from 2.1% y/y in October, while core inflation remained unchanged at 0.6% y/y. The sharp decline was due to a decrease in food prices – more specifically, pork prices. Non-food inflation, as well as prices for transport, apparel and health services remained unchanged. More broadly, subdued price pressures reflect weak economic activity.

The rand ended the month at R17.03/US$1. Expectations around aggressive global monetary policy normalisation weighed on risk appetite as global liquidity reduces in the face of elevated inflation. Offshore sovereign bonds have seen a significant repricing and are now closer to what we consider to be long-term fair value. Credit assets have seen a substantial drop in valuations which has made them look very attractive. The Fund has utilised a significant part of its offshore allowance to invest in these types of 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.

Locally, the economy grew at a much-stronger-than-expected 1.6% quarter on quarter (q/q) in the third quarter of 2022 (Q3-22) following a contraction of 0.7% q/q in the second quarter of 2022. On the supply side, growth came mostly from agriculture and transport, as well as financial and business services, while utilities (mostly electricity) detracted. On the expenditure side, net trade was the biggest contributor, despite challenges in network industries and strikes in Q3-22. Inventory accumulation, possibly owing to aggravated loadshedding, was also a major positive contributor to growth. Looking ahead, Q4-22 activity will be dogged by high levels of loadshedding, which may be partly offset by a decent tourist season. Nonetheless, we expect activity to be weaker than in Q3-22.

Headline inflation moderated to 7.4% y/y in November from 7.6% y/y in October, but core inflation remained unchanged at 5.0% y/y. Lower fuel and transport costs accounted for much of the moderation, while food and broader goods and services prices remain sticky. We expect CPI to average 6.9% in 2022. An early and substantial fuel price cut in January 2023 should see a faster slowing in headline inflation than we had expected and will lower the average headline CPI for 2023. Despite this, we expect the South African Reserve Bank to raise the repo rate by 50bps in January, to a peak rate of 7.5%.

ILBs, like nominal bonds, continue to trade at elevated levels. One can attain returns of 3%-4.5% after inflation when investing in the SA ILB market. In a world of cheap valuations, the limiting factor is cash and one must be careful, like with credit, in assessing the relative attractiveness of the various asset classes. Although the real yields on offer are quite attractive, the required inflation for ILBs to outperform nominal bonds remains high as one goes for longer ILB maturities of six to seven years (I2029). Within a fixed income portfolio, we therefore continue to favour allocating to ILBs with a maturity of less than seven years.

The global environment will remain in a state of flux for at least the first half of 2023. This as the battle between monetary policy normalisation, slowing global growth, and sticky inflation continues to wage on. Risk sentiment has recovered slightly since the severe bout of risk aversion in the second half of 2022, but SA faces its own challenges both politically and economically. Loadshedding, crumbling local infrastructure, and souring local sentiment precipitate the need for swifter reforms, together with more private sector involvement. The valuation of SA bonds should provide a reasonable buffer, as they have already since they trade at a significant discount to fair value.

Corporate credit is an incredibly effective tool that can be used to enhance the yield and longer-term performance of fixed income portfolios. However, it is important to understand that yield is earned over a multi-year investment horizon, and a long-term focus is essential when analysing and investing in the asset class.

The local credit market is more nuanced than international credit markets, with significantly lower issuance and, hence, much lower liquidity, making it predominantly 'buy and hold' in nature. This accentuates the need for rigorous interrogation of credit quality and appropriate compensation in valuation for holding these instruments. In the years following the Global Financial Crisis, credit has been employed as a significant driver of fixed income portfolio returns, but the types of instruments utilised have become more complex and less transparent with regards to the actual risk they carry. This requires investors to spend more time scrutinising not only the credit quality of their investments, but also the instruments through which they lend to these entities.

We believe that the corporate credit spreads currently on offer are not attractive, and do not reflect their inherent risks. As such, we have been allocating away from credit and allowing our investment in credit to become less material in our portfolios for quite some time. However, with the recent repricing in global rates and credit markets, we believe these offer an attractive opportunity for investors. The local credit market has been influenced by a shortage in supply and an increase in liquidity. Issuance this year has been net negative, and according to ASISA data, savings continue to accumulate. A supply/demand imbalance of this magnitude continues to distort fundamental credit pricing.

At the end of December, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 8.925% (three-year) and 9.39% (five-year), higher than the close at the end of the previous month. The recent move is due to a repricing in bond yields in the local market. 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 local listed property sector was up 1.1% over the month, bringing its 12-month return to -1.9%. The balance sheet concerns in the sector have subsided, as companies have managed to introduce dividend payout ratios (with some withholding dividends entirely) and selling off assets in order to recapitalise themselves. 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 due to 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.

Outlook

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 9.64% 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 December 2022

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 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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