



09/21

COMPELLING ALTERNATIVES  
FOR CASH INVESTORS

COROLAB

*Your guide to investment ideas*

CORONATION

TRUST IS EARNED™



# THE CORONATION CLIENT CHARTER

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We strive to always put clients first

We have an unwavering  
commitment to the long term

We focus on producing  
top performance over all  
meaningful periods

We are uncompromising  
about ethics



# When to consider a managed income fund

Investors may need to keep a portion of their savings in cash for different reasons. Business owners with lumpy cash flow may need to park some capital in cash to pay monthly bills such as salaries. Or, individuals who have just retired may wish to have a bucket of retirement savings that is not exposed to near-term market risk. Whatever your reason for needing access to cash in the short term, if your time horizon is less than three years, consider investing that money in a managed income fund.

## BETTER THAN CASH

Coronation offers two managed income funds for investors wanting to achieve a better return than domestic or US dollar cash. The **Coronation Strategic Income Fund** and the dollar-denominated **Coronation Global Strategic USD Income Fund** are both actively managed across the range of yielding asset classes.



Investors with a shorter time horizon (<12 months) can consider investing in one of our cash funds such as Coronation Jibar Plus (see page 13).



INVESTORS WITH A TIME HORIZON OF <3 YEARS MAY CONSIDER

← **CORONATION STRATEGIC INCOME**  
BETTER THAN DOMESTIC CASH



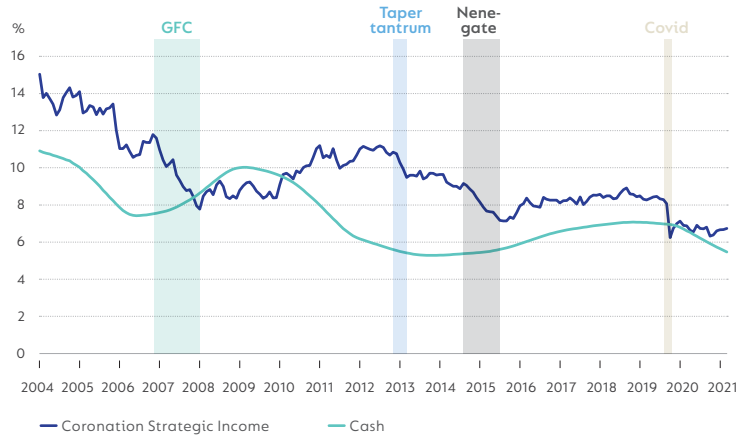
**CORONATION GLOBAL STRATEGIC USD INCOME**  
BETTER THAN US DOLLAR CASH

## A 20-YEAR TRACK RECORD OF OUTPERFORMING CASH

Coronation Strategic Income has a 20-year track record in consistently outperforming cash over rolling three-year periods (the maximum recommended investment period) as is clear from **Figure 1** below. This demonstrates the value of considered risk-taking within the fixed interest universe, coupled with active diversification into alternative sources of return.

*Figure 1*

### BETTER THAN DOMESTIC CASH SINCE INCEPTION\*



\*July 2001

Highest annual return 18.7% (Nov 2002 - Oct 2003)

Lowest annual return 2.0% (Apr 2019 - Mar 2020)

Source: Coronation as at end-August 2021



# How we improve the outcomes for cash investors

To have a chance of achieving a better return than that of a short-term deposit at a bank, investors need exposure to assets with a higher expected return than cash. The **Coronation Strategic Income** and **Global Strategic USD Income** funds are managed to achieve this by:

- ▶ Taking considered interest rate and credit risk where appropriate (see more detail on these risks below); and
- ▶ Increasing exposure to alternative sources of return (see definitions on [page 7](#)) when the likelihood of outperformance is expected to be high.

## TAKING CONSIDERED INTEREST AND CREDIT RISK

### INTEREST-RATE RISK

The possibility that the value of a bond (or other debt instrument) will decrease due to rising interest rates.

Most bonds pay a fixed rate of interest over a defined period of time. This rate is set according to prevailing market interest rates at the time of issuing the bond. Here's what happens to the market price of the bond when market interest rates move up or down:

### HOW MARKET INTEREST RATES AFFECT THE PRICE OF A FIXED-RATE BOND



The market price of the bond **decreases** as the below-market coupon rate of the bond in issue becomes less attractive.

The market price of the bond **increases** as the above-market coupon rate of the bond in issue becomes more attractive.

**NOTE:** The longer the period to maturity, the bigger the decline in value of the bond in the secondary market.

### CREDIT RISK

The possibility that the investor might not be repaid by the issuer of the bond.




In simple terms, bonds can be thought of as a contract or set of promises between two parties – the bond issuer and the lender. The risk for the lender is that the borrower is unable to return the capital at the stipulated time or make the agreed-upon interest payments.

The credit risk associated with corporate bonds is higher than that of government bonds. In a worst-case scenario, government is assumed to be able to print money to make good on its obligations. Corporates therefore borrow at higher rates than governments. The difference between corporate and government interest rates is referred to as the 'credit spread'.

We are highly cognisant of credit risk and only invest in corporate bonds when we believe that the yield compensates for the risk, or when there is a general rise in credit spreads. All credit decisions are subject to oversight by Coronation's independently chaired Credit Committee.

## INCREASING EXPOSURE TO ALTERNATIVE SOURCES OF RETURN

Investors are not always rewarded for the additional risk of diversifying into other asset classes. A positive or negative contribution from these asset classes will depend on the prevailing market environment as detailed in the table below.

 <p><b>PROTECTS AGAINST RISING INTEREST RATES</b></p>	 <p><b>PROTECTS AGAINST RISING INFLATION</b></p>	 <p><b>ACHIEVES DIVERSIFICATION</b></p>
<p><b>Floating-rate notes<sup>1</sup></b> The coupon payment on a floating-rate note depends on the level of money market interest rates and, on average, offers a yield pick-up of 1% over prevailing money market rates. It therefore makes sense to favour these instruments when interest rates are expected to remain flat or start to rise.</p>	<p><b>Inflation-linked bonds (ILBs)<sup>3</sup></b> During inflation upswings, ILBs offer both inflation protection and an uplift in yield, making them a great diversifier in any multi-asset class portfolio. ILBs are also less correlated to other asset classes and therefore reduce overall volatility within a portfolio.</p>	<p><b>Preference shares<sup>5</sup></b> Because price behaviour is more volatile than fixed interest investments, exposure to this asset class is limited to 10% of the overall Coronation Strategic Income portfolio.</p>
<p><b>Corporate credit<sup>2</sup></b> In an improving economy (which typically coincides with a rising interest rate environment) the spread on good quality corporate credit tends to narrow, creating the opportunity for capital gains.</p>	<p><b>Listed property<sup>4</sup></b> Listed property provides protection against rising inflation as rental income tends to increase in line with rising prices. Because price behaviour is more volatile than fixed interest investments, exposure to this asset class is limited to 10% of the overall portfolio for both Coronation Strategic Income and Coronation Global Strategic USD Income.</p>	<p><b>Convertible bonds<sup>6</sup></b> Convertible bonds pay a lower initial coupon than traditional corporate credit. The convertibility allows investors to share in the upside from rising equity prices, while benefiting from a fixed coupon should the share fail to reach its conversion price.</p>

1. Notes that offer a variable interest rate and reflect the changes in market interest rates.

2. Corporate bonds that provide a credit spread above government rates.

3. A bond with cash flows that are linked to the inflation rate.

4. Enables the investor to earn rental income from a diversified portfolio of retail, office, industrial and hospitality properties.

5. Hybrid instruments that pay a regular income in the form of dividends and are typically expressed as a percentage of the prime rate.

6. Corporate bonds that can be exchanged at the option of the holder for a specific number of shares at some point in the future.

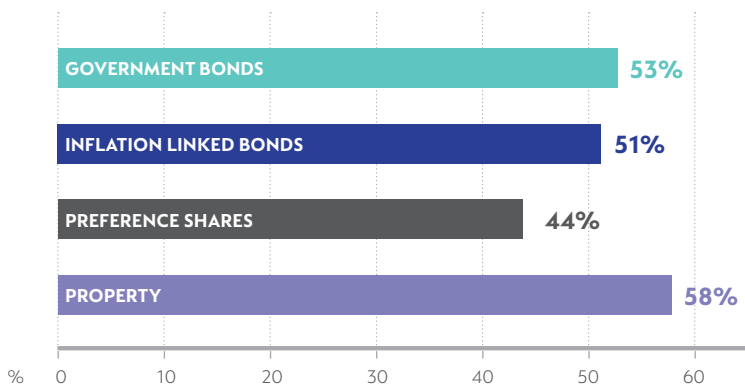


Achieving a higher return than cash, however, comes with higher levels of risk. We manage risk by following a robust and consistent investment process. We apply defensive asset allocation guidelines and conduct careful research to identify individual securities trading below our estimate of fair value.

**Figure 2** below illustrates how often some of the asset classes detailed on **page 6** have outperformed cash by 2% (the internal target of the Coronation Strategic Income Fund). Our view of changing market conditions, and how we respond in the positioning of our managed income funds, is therefore critical to successful outperformance over time.

*Figure 2*

**PERCENTAGE OF MONTHS ASSET CLASS RETURN EXCEEDS CASH BY 2% OR MORE**



Source: Coronation, as at end-August 2021

There are, however, no guarantees that our two managed income funds will always outperform cash or protect capital over short periods of time. Our risk objectives in both funds are to protect capital in rand or US dollars over all periods of six months and longer, and to achieve significantly less volatility than that of their respective benchmark bond indices.

# Be mindful of your investment time horizon

Managed income funds are typically not suitable for longer investment periods. Their limited exposure to growth assets constrains their ability to provide adequate protection against the eroding effects of inflation on one's purchasing power.

<b>DO consider these funds if:</b>	<b>DON'T consider these funds if:</b>
You need access to cash over the next 12 to 36 months.	You can invest for periods longer than 36 months.
You don't want to take on much short-term risk (over the next 12-36 months).	You need income to cover your everyday living expenses <b>over an extended period of time.</b>
	You want to grow your capital to protect your purchasing power.

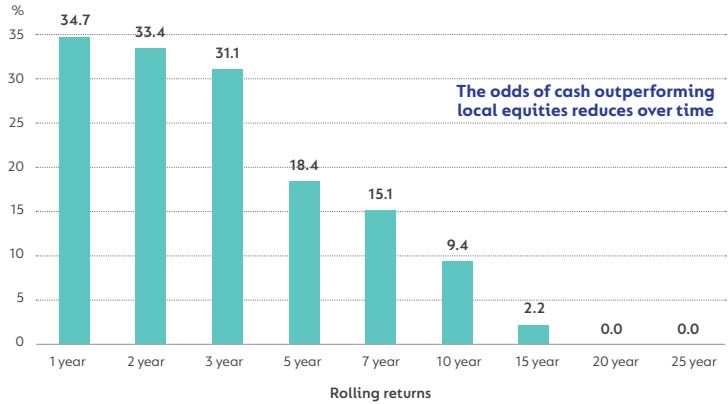
The following graphs demonstrate the benefit of maintaining exposure to growth assets over an appropriate time horizon. As is clear from the figures on the next page, cash returns become less likely to outperform equities the longer you remain invested, and investing too conservatively dramatically depresses long-term wealth creation.





Figure 3

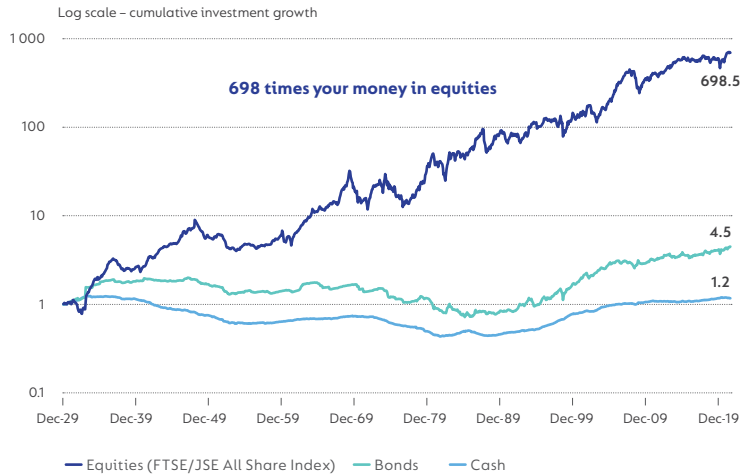
### ROLLING RETURNS ON CASH (1 - 25 YEARS)



Source: Bloomberg, using dataset from January 1925 to end-August 2021

Figure 4

### REAL RETURNS DELIVERED BY KEY ASSET CLASSES (SINCE 1930)



Source: Coronation as at end-August 2021

# Our approach to fixed interest investing

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We take an active approach to fixed interest portfolio management. All investment decisions are driven by proprietary research across the full spectrum of potential return enhancers. These include duration and yield curve positions, off-benchmark positions through inflation-linked assets as well as yield enhancement through credit-enhanced assets. As is the case with equities, we believe value can be added within the fixed interest universe through bottom-up security selection when assets are mispriced. Critical to the success of our fixed interest funds is our dynamic response to changing market conditions through active management of portfolio duration. The fixed interest investment cycle (see [Figure 5](#)) guides our duration management, asset allocation and yield curve positioning. In its simplest form, the cycle is divided into two halves, which represent a falling inflation environment (good for bonds) and a rising inflation environment (bad for bonds). While the chart looks neat and even, the length of time it takes to move through each quadrant can be very different.

## DURATION

A measure of the change in the price of a bond or other debt instrument in response to a change in interest rates. Bond prices and interest rates move in opposite directions.

## YIELD

A measure of the annual income paid as a percentage of the price of a bond.

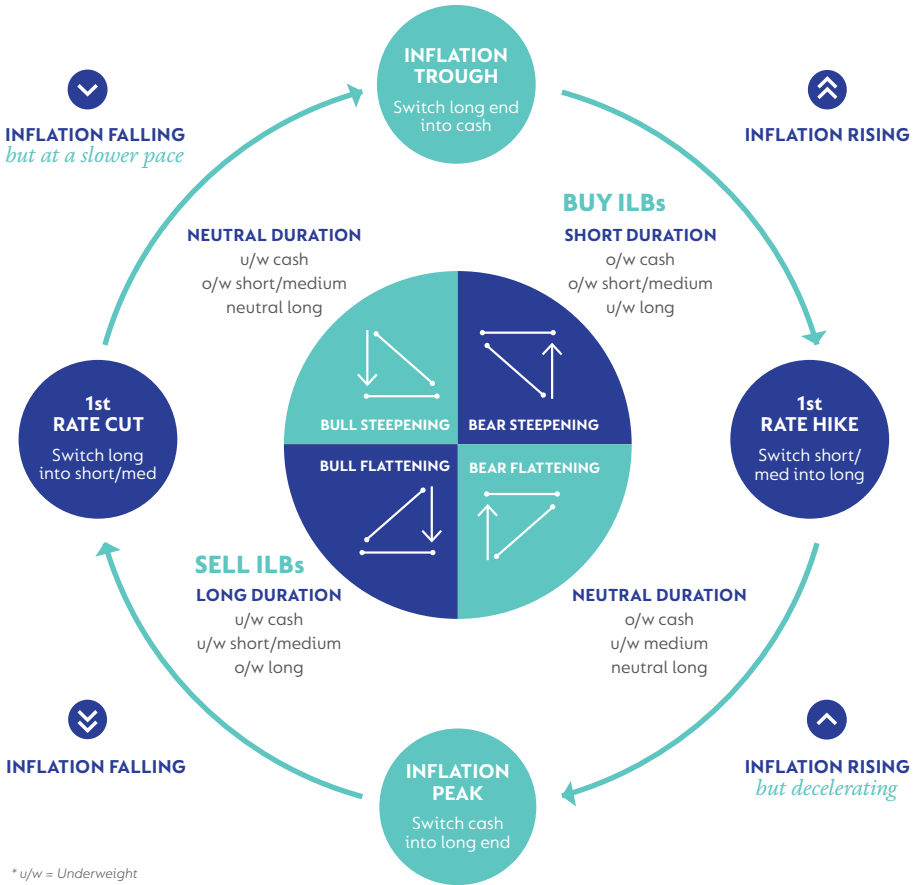
## YIELD CURVE

A graph that plots the yields of similar-quality bonds against the length of time they have to run to maturity, ranging from shortest to longest.



Figure 5

### THE FIXED INTEREST INVESTMENT CYCLE



# Our fixed interest fund range

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Coronation offers a range of actively managed funds that meet the needs of investors who are looking to invest for the short term, and to whom capital preservation is of primary importance. These funds are managed according to the same Coronation investment philosophy (disciplined, long-term focused and valuation-based) that we apply across our entire fund range. In addition to our flagship managed income funds, Coronation Strategic Income and Global Strategic USD Income, we offer a rand-denominated version of the latter for investors who wish to access this specialised portfolio without using their foreign investment allowances.

We also offer specialist bond (Coronation Bond) and listed property (Coronation Property Equity) funds.



INVESTORS WITH A TIME HORIZON OF BETWEEN 12 AND 36 MONTHS		
FUND NAME	CORONATION STRATEGIC INCOME	CORONATION GLOBAL STRATEGIC INCOME
LAUNCH DATE	2 July 2001	30 December 2011
 <b>SUITABLE FOR INVESTORS WHO</b>	Want to achieve a better return in rands than cash or bank deposits and are comfortable taking reasonable risks within the fixed interest universe.	Want to achieve a better return than that of US dollar bank deposits and are comfortable taking reasonable risks within the fixed interest universe. Are seeking to utilise their offshore allowance in a conservative manner.

INVESTORS WITH A TIME HORIZON OF <12 MONTHS		
FUND NAME	CORONATION JIBAR PLUS	CORONATION MONEY MARKET
LAUNCH DATE	3 April 2000	1 October 1999
 <b>SUITABLE FOR INVESTORS WHO</b>	Are preserving capital in rands over the very short term (e.g. for the purpose of setting up an emergency fund) without being exposed to interest rate volatility.	Are preserving capital in rands over the very short term, but comfortable with the small increase in risk associated with investment-grade money market funds when compared to bank deposits.

For full details on fund composition, benchmarks, fees and highest and lowest annual returns, please refer to the respective comprehensive fact sheets available in the Personal Investments section of [www.coronation.com](http://www.coronation.com) or contact one of our Client Service consultants on 0800 22 11 77.

# The Team

Nishan Maharaj leads our ten-person team of fixed interest specialists who provide key inputs to extract maximum value from each of the potential return enhancers for the benefit of our investors.

HEAD OF FIXED INTEREST		
Nishan Maharaj		
19 years		
Head of Fixed Interest Research	Mauro Longano	11 Years
Portfolio Manager & Analyst	Seamus Vasey	18 Years
Portfolio Manager	Adrian Van Pallander	20 Years
Property Portfolio Manager	Anton De Goede	23 Years
Economist	Marie Antelme	21 Years
Portfolio Manager & Analyst	Steve Janson	15 Years
Portfolio Manager & Analyst	Sinovuyo Ndaleni	6 Years
Global Analyst	Stephen Peirce	27 Years
Credit Analyst	Kgahliso Molabe	5 Years



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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. Where foreign securities are included in a fund it may 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 Coronation Money Market fund is not a bank deposit account. The fund has a constant price, and the total return is made up of interest received and any gain or loss made on any particular instrument, in most cases the return will merely have the effect of increasing or decreasing the daily yield, but in the case of abnormal losses it can have the effect of reducing the capital value of the portfolio. Excessive withdrawals could place the fund under liquidity pressures, in such circumstances a process of ring-fencing of redemption instructions and managed pay-outs over time may be followed. A fund of funds invests in collective investment schemes that levy their own fees and charges, which could result in a higher fee structure for this fund. 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. 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. Unit trusts are traded at ruling prices set on every day trading. Forward pricing is used. For Domestic Unit Trust Funds and Tax Free Investments, including rand-denominated International Unit Trust Funds, 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). For these Funds, instructions must reach the Management Company before 14h00 (12h00 for the Money Market Fund) to ensure same day value. For International Unit Trust Funds that are denominated in a foreign currency, fund valuations take place at approximately 17h00 each business day (Irish Time) and instructions must reach the Management Company before 12h00 (SA Time) to ensure the value of the next business day. For Retirement Products, fund valuations take place at approximately 15h00 each business day, except at month end when valuation is performed at approximately 17h00 (JSE market close). For these Products, instructions must reach the Management Company before 14h00 to ensure the value of the next business day. Additional information such as 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). Coronation Fund Managers Limited is a Full member of the Association for Savings & Investment SA (ASISA). Coronation Asset Management (Pty) Ltd (FSP 548), Coronation Investment Management International (Pty) Ltd (FSP 45646) and Coronation Alternative Investment Managers (Pty) Ltd (FSP 49893) are authorised financial services providers.

For enquiries you can call us on 0800 22 11 77 or email us at [clientservice@coronation.com](mailto:clientservice@coronation.com). For new applications or transactions you can email your forms directly to [transact@coronation.com](mailto:transact@coronation.com) or fax us on +27 21 680 2100. For more information or to invest online, visit us on [www.coronation.com](http://www.coronation.com)



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or email us at **[clientservice@coronation.com](mailto:clientservice@coronation.com)**.

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