



09 /22

COMPELLING ALTERNATIVES
FOR CASH INVESTORS

COROLAB

Your guide to investment ideas

CORONATION

TRUST IS EARNED™

A blue-tinted photograph of four business professionals (two men and two women) in a meeting. They are standing around a small, round, high-top table on a balcony or terrace, looking at each other and smiling. The background shows a cityscape. A white crosshair graphic is overlaid on the left side of the image.

THE CORONATION CLIENT CHARTER

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



Compelling alternatives for cash investors

- ▶ Cash or near-cash investments have an important function within your overall investment portfolio
- ▶ While funds that invest in these instruments sit lower down on the risk return spectrum, the investment universe is much more complex than that of equities
- ▶ Constructing portfolios that meet the risk and return objectives of these conservative funds requires a very specific broad and deep skill set
- ▶ Coronation has a multi-decade track record in delivering cash plus returns, supported by an incredibly capable team of fixed income professionals who cover instruments both locally and offshore to deliver on the various return mandates within our fixed income offering

WHY YOU MAY NEED TO PARK A PORTION OF YOUR SAVINGS IN CASH

There are various reasons why keeping a portion of your savings in cash is good practice. The asset class could serve as a parking place for business owners with lumpy cash flow from which they need to pay monthly bills such as salaries; for recently retired investors who need to ring-fence a portion of their retirement savings against near-term market risk; or for those in the process of building up or maintaining their emergency funds.

But you may want to do a little better than cash

Whatever the reason for keeping a portion of your savings in cash, you may prefer to not let that money lie idle in a bank account. Instead, you could make it work a little harder in terms of returns by investing it in a cash or near-cash investment fund while still meeting the key requirements of **liquidity** (i.e. access to your savings) and **capital preservation** (for those who prefer no or little volatility).

Depending on your time horizon, appetite for risk and return expectations, there are a number of options from which to choose. At Coronation, we offer a range of actively-managed income funds that are designed for investors wanting to achieve a better return than domestic or US dollar cash (see table below). All 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.

CASH ALTERNATIVE	RETURN OBJECTIVE	INVESTMENT TIME HORIZON
Coronation Money Market	A higher return than cash for investors who cannot stomach any volatility	<6 months
Coronation Jibar Plus	A higher return than a money market fund at no extra risk but slight volatility	<12 months
FLAGSHIP MANAGED INCOME FUNDS		
Coronation Strategic Income	Cash + 2% by taking considered risk	1-3 years
Coronation Global Strategic USD Income*	USD cash + 2% by taking considered risk	1-3 years

* Also available as a rand-denominated feeder fund

Over and above these funds, we also offer specialist bond (Coronation Bond) and listed property (Coronation Property Equity) funds for investors with different return objectives and time horizons.



How we aim to improve the outcomes for investors wanting to do better than cash

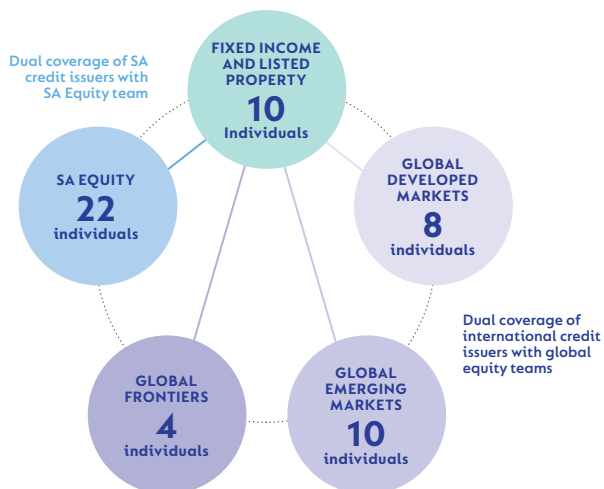
AN INCREDIBLY CAPABLE TEAM

Our fixed income team of 10 specialists is well-resourced and fully integrated into our global investment team of 54 professionals (see below). These specialists provide key inputs from which we extract maximum value across the potential return enhancers (→ *page 9*) available to us in the fixed income universe.

The team covers instruments both locally and offshore. And to enhance the rigour of our investment process in this universe, we share dual coverage with our respective local and global equity teams of the local and international credit issuers held within our portfolios.

54 FULLY INTEGRATED INVESTMENT PROFESSIONALS

Our fixed income team sits together with and works closely with our global and local equity investment colleagues to support us on local and offshore credit



ADDING VALUE THROUGH ASSET ALLOCATION IN A COMPLEX UNIVERSE

As is the case with equities, we believe we can add value for conservative investors in our multi-asset managed income funds through bottom-up security selection when assets are mispriced.

We apply the same approach to asset allocation within the local and global fixed income universes as the broader Coronation investment team, but are always mindful that this process needs to be overlaid with certain constraints. These constraints include allocating to a blend of assets that:

- ▶ can deliver on our managed income funds' respective **performance objectives** (cash plus 2% over the long term or cash-like returns during volatile times), while;
- ▶ prioritising **capital preservation** over a 12-month period; and
- ▶ providing **liquidity** to investors with immediate income needs (such as those drawing a regular retirement income).

The following visual demonstrates the process in a bit more detail:

BOTTOM-UP PROPRIETARY RESEARCH	VALUATION	PORTFOLIO CONSTRUCTION
<p>Bottom-up financial analysis of a fixed income instrument is supported by the research effort of the entire global investment team (<i>see page 5</i>).</p>	<p>Once the research is completed, the fundamentals will translate into a valuation.</p> <p>▶ Instruments that are less liquid will demand cheaper valuations and, as such, will represent a smaller portion of the overall portfolio when it comes to construction.</p>	<p>Our bottom-up, valuation-driven process culminates in a robust portfolio that meets objectives over the longer term. To achieve this we ensure that we:</p> <ul style="list-style-type: none"> • understand downside for each asset; • constrain asset allocation based on liquidity; • include assets with contrasting relationships; and • use quantitative tools to assess risk profile (<i>see page 7</i>).

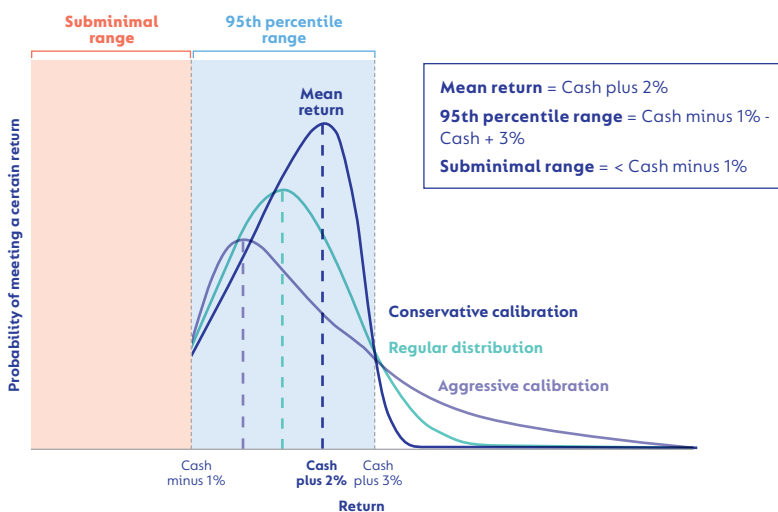


SACRIFICING RISK FOR CERTAINTY OF RETURN

As part of our disciplined portfolio construction process (see table on [page 6](#)), we never aim to increase the risk profile or performance of our managed income funds by increasing the possibility of investor downside. This means that we won't attempt to deliver cash plus 3% or 4% if we believe that it's going to put our capital preservation commitment at risk or result in us underperforming cash (see chart below). To achieve this, we use quantitative modelling to arrive at a blend of assets that allows us to meet our risk/return target with a high degree of certainty.

QUANTITATIVE MODELLING ALLOWS US TO MEET RISK/RETURN TARGETS WITH A HIGH DEGREE OF CERTAINTY

Return distributions for Coronation Strategic Income Fund



Source: Coronation

HOW WE TAKE RISK WITHIN OUR MANAGED INCOME PORTFOLIOS

As discussed on [page 7](#), in order to meet our managed income funds' performance objectives, we need to take risk in order to outperform cash over the long term. However, we never do this at the expense of our capital preservation commitment or if it risks underperformance of cash. So we achieve this by:

- ▶ taking considered interest and credit risk where appropriate (see visual below); and
- ▶ increasing exposure to alternative sources of return when the likelihood of outperformance is high (see [page 9](#)).

TAKING CONSIDERED INTEREST RATE AND CREDIT RISK, WHERE APPROPRIATE



INTEREST RATE RISK

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.

The **interest rate risk** comes about when a bond's coupon rate is lower than (i.e. less attractive) than the prevailing market interest rate, in which case the market price of the bond decreases. (Note that the longer the period to maturity for the bond in issue, the bigger the decline in its value in the secondary market.) In turn, the market price of a bond will increase when its coupon rate is higher (i.e. more attractive) than prevailing market interest rates.



CREDIT RISK

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'.

How we manage these risks

We consider all the factors influencing the fixed interest investment cycle and actively manage the overall duration of the portfolio to optimise the expected risk-adjusted return.

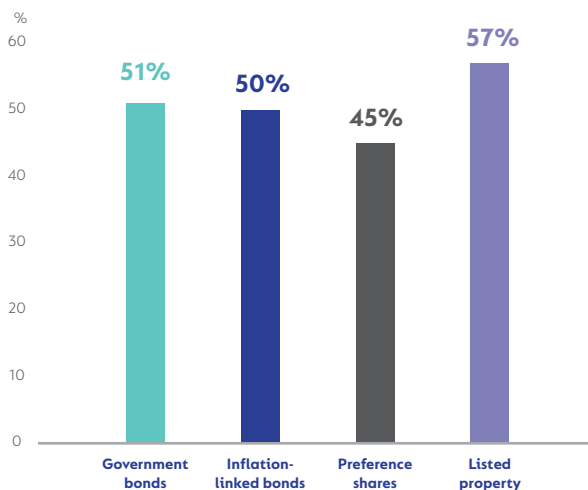
We are highly cognisant of credit risk and only invest in corporate bonds when we believe that the yield compensates for the risk, or when there is a general rise in credit spreads. All credit decisions are subject to oversight by Coronation's independently chaired Credit Committee.



INCREASING EXPOSURE TO ALTERNATIVE SOURCES OF RETURN WHEN THE LIKELIHOOD OF OUTPERFORMANCE IS HIGH

To achieve our internal performance target of cash plus 2% over the long term, one could argue that it is as simple as constructing a portfolio of instruments that offer a yield of cash plus 2% or more (see graph below).

HOW OFTEN DO RETURNS FROM ALTERNATIVE SOURCES EXCEED CASH BY 2% OR MORE?



Source: Coronation, as at end-August 2022 since inception of Coronation Strategic Income in July 2001

However, allocating to alternative sources of return that offer protection and diversifying qualities (as detailed on [page 10](#)), requires careful analysis of the prevailing market environment and then to dynamically adjust exposure when the likelihood of outperformance changes.

ALTERNATIVE SOURCES THAT:				
	<p>Protect against rising interest rates</p>	<table border="0"> <tr> <td data-bbox="356 293 647 520"> <p>Floating-rate notes</p> <p>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> </td> <td data-bbox="676 293 967 456"> <p>Corporate credit</p> <p>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> </td> </tr> </table>	<p>Floating-rate notes</p> <p>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>Corporate credit</p> <p>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>
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	<p>Protect against rising inflation</p>	<table border="0"> <tr> <td data-bbox="356 561 641 769"> <p>Inflation-linked bonds (ILBs)</p> <p>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> </td> <td data-bbox="676 561 986 810"> <p>Listed property</p> <p>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> </td> </tr> </table>	<p>Inflation-linked bonds (ILBs)</p> <p>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>Listed property</p> <p>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>
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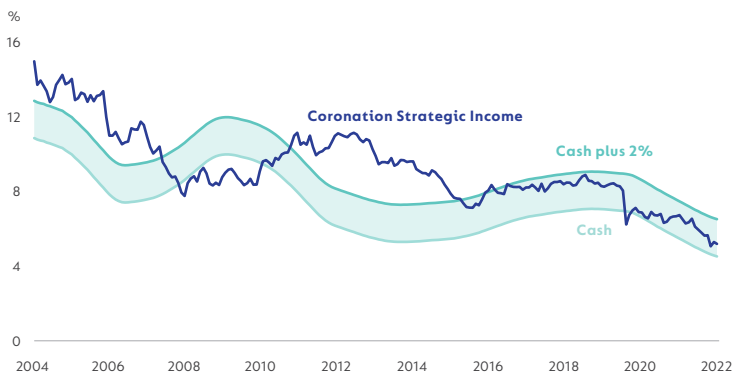


Expertise that culminates in cash plus outcomes for investors

Our flagship domestic managed income fund, Coronation Strategic Income, has a track record of consistently outperforming cash over its more than 20-year history as is clear from the graph below. This outperformance of cash over rolling three-year periods (the fund's maximum recommended investment period) demonstrates the value of considered risk-taking within the fixed interest universe, coupled with active asset allocation and diversification into alternative sources of return.

CONSISTENTLY OUTPERFORMING CASH OVER MORE THAN TWO DECADES

Rolling three-year returns since inception* of Coronation Strategic Income vs Cash vs Cash plus 2%



AVERAGE MONTHLY RETURNS SINCE INCEPTION*

	WHEN RATES ARE RISING	WHEN RATES ARE FALLING
Strategic Income Fund	0.72%	0.75%
Cash	0.64%	0.53%

*July 2001

Source: Coronation, as at end-August 2022

DON'T EXPECT A LINEAR RETURN SERIES

The need to put capital at risk through the portfolio positioning decisions as explained above means that our managed income funds will not have a linear return series like that of a money market fund.

Over short measurement periods, capital at risk can fluctuate. We will however never position the portfolio towards a single outcome. Instead, we create portfolios that comprise a diversified set of assets and always take a conservative approach to risk (e.g. through option protection strategies).

There will be times, in the short term, when these funds are unable to deliver on their cash plus 2% targets.

Rising interest rate environments make it more difficult to deliver cash plus 2% (as has been the case since November 2021). When rates are falling, it becomes easier to achieve this goal. However, we are confident that we can consistently deliver cash plus 2% through the cycle.

INTEREST RATE ENVIRONMENT	EXPECTED OUTCOME FOR CORONATION STRATEGIC INCOME
Early on in the interest rate hiking cycle	Outcome in line with cash
Later on in the interest rate hiking cycle	1%-2% ahead of cash
Early on in the rate cutting cycle	3%-4% ahead of cash
Later on in the rate cutting cycle	2%-3% ahead of cash
Through the cycle	2% ahead of cash



Disclaimer:

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. As a result thereof, there may be limitations as to the appropriateness of any information given. It is therefore recommended that the reader first obtain the appropriate legal, tax, investment or other professional advice and formulate an appropriate investment strategy that would suit the risk profile of the reader prior to acting upon information. Neither Coronation Fund Managers Limited, Coronation Management Company (RF) (Pty) Ltd nor any other subsidiary of Coronation Fund Managers Limited (collectively "Coronation") is acting, purporting to act and nor is it authorised to act in any way as an adviser. Coronation endeavours to provide accurate and timely information but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. Coronation does not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate. Any representation or opinion is provided for information purposes only. Unit trusts should be considered a medium- to long-term investment. The value of units may go down as well as up, and is therefore not guaranteed. Past performance is not necessarily an indication of future performance. Unit trusts are allowed to engage in scrip lending and borrowing. Performance is calculated by Coronation for a lump sum investment 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. 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 Offshore 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 Offshore 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. 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. Coronation Life Assurance Company Limited is a licenced insurer under the Insurance Act, No.18 of 2017.

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

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