2025

INCOME INVESTING

COROLAB

Your guide to investment ideas

CORONATION

TRUST IS EARNED™

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

Overview

Income funds can play an essential role in your overall investment portfolio. Their purpose is to provide **a consistent and predictable income stream** from a portion of your overall portfolio where capital preservation may be needed.

But not all income funds are of equal risk and thus return, and it is important to carefully choose a fund that meets your objectives.

To help you navigate your fund options, this edition showcases our range of income funds, with a spotlight on our managed income solutions. It explains how they are built and how they utilise the asset classes available to them and demonstrates their track records of cash outperformance through various interest rate and economic cycles.

When to consider investing in a managed income fund

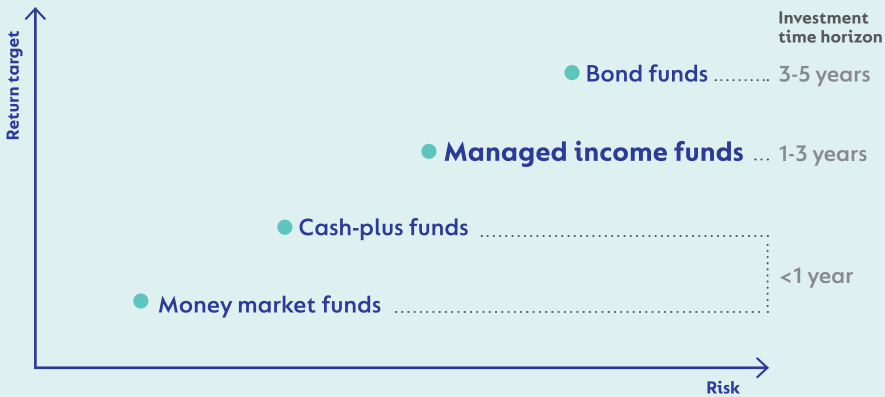
Investors may seek to keep a portion of their savings in cash for different reasons.

- They may need access to their money in the medium term (to pay for a child's education that commences in a year or two's time, a deposit on a new home, or to start a new business).
- A recent retiree may wish to keep a portion of their capital unexposed to near-term market risk.
- Business owners with lumpy cash flow may need to park some capital in cash to pay monthly bills and salaries.

Whatever the reason for needing access to cash in the short term (the next 1-3 years), you can consider investing it in a managed income fund.

What is an income fund?

The classic definition of an income fund is one that aims to meet the needs (i.e., risk and return objective) of an investor seeking **a conservatively managed fund that aims to outperform cash, or traditional money market funds, by 1-2% through the cycle, while aiming to preserve capital over the short term (typically 12 months)**. As such, investors will find income funds sitting somewhere between a money market fund and a bond fund on the risk/return spectrum.



Source: Coronation

What do managed income funds invest in?

Managed income funds can invest in a wide variety of assets, such as cash, bonds, listed property and even equities, with the primary objective of maximising income on behalf of investors. The category allows for a high level of flexibility, with portfolios being able to invest as much as 45% offshore, 10% in equity and 25% in listed property. This means that you need to choose your managed income fund carefully and ensure that you are clear about your chosen fund's expected return path as well as the risks it will take to deliver on that return profile.

What are the benefits of considering a managed income fund?

Access
Unlike a fixed deposit at a bank, you maintain access to your money while invested.

More than just interest
Managed income funds aim to deliver a better return than what you would achieve via a deposit at a bank.

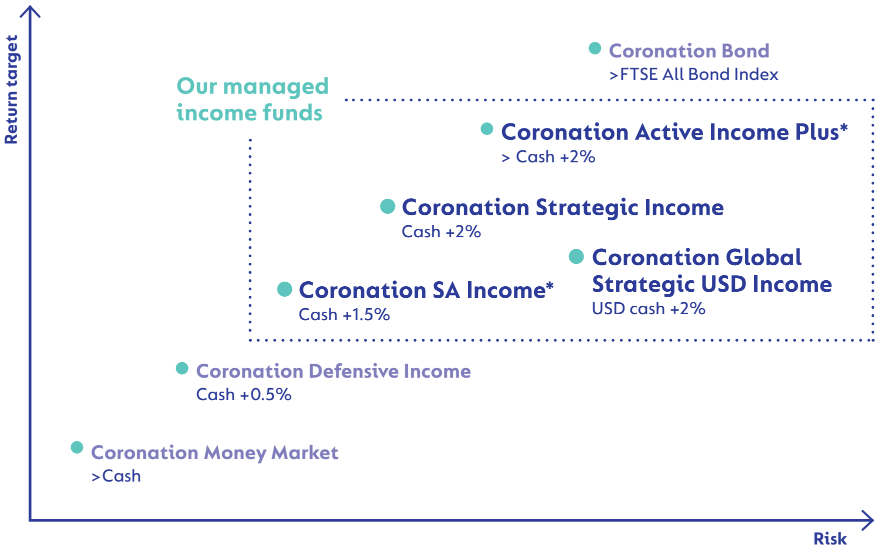
Active management across multiple asset classes
Managed income funds seek to invest across a diversified pool of fixed income instruments, focused on identifying the best opportunities within different types of bonds, money market instruments and other interest-bearing instruments, and then actively adjust these holdings in response to the changing environment and factors affecting returns.

Expert guidance
Rather than navigating the complex fixed income landscape yourself, an experienced fund manager makes decisions and adjustments to a portfolio on your behalf when interest rates change or certain investments become more attractive than others.

Coronation's managed income fund solutions

Coronation offers four managed income funds of varying risk profiles. The four funds form part of a comprehensive range of income fund solutions, aimed at meeting various income investors' risk, return and currency needs.

Coronation's full range of income funds



* Launched 29 November 2023
Cash = Alexander Forbes 3-month (SteFI) Index
USD cash = Secured Overnight Finance Rate (SOFR)

Source: Coronation

Our managed income funds are managed by the same team and were born out of the same principles of:

- **capital preservation in the short term** (over rolling 12-month periods); and
- having **a strong focus on risk management** (we never take more risk than is required to deliver on the funds' stated return profiles).

These funds can be accessed in rands or in US dollars:

R **Coronation managed income funds you can access in rands**	$ **Coronation managed income funds you can access in US dollars**
+ Coronation Strategic Income + Coronation Active Income Plus + Coronation Global Strategic USD Income ZAR Feeder + Coronation Global Strategic USD Income Prescient AMETF	+ Coronation Global Strategic Income USD

Coronation Strategic Income, our managed income fund with the longest track record, caters for investors wanting to achieve a better return than domestic cash. **Coronation Active Income Plus** caters for investors seeking a slightly higher return profile from a portfolio that can invest in opportunities beyond the risk profile of a traditional managed income fund, while still aiming to preserve capital over a 12-month period. **Coronation SA Income** is our lowest risk managed income fund that aims to outperform traditional money market or ultra-short duration income funds through a diversified portfolio of SA-only interest-bearing assets.

We also offer a dollar-denominated managed income fund – **Coronation Global Strategic USD Income** – that can be accessed in rands, in US dollars or as an Actively Managed Exchange-Traded Fund (AMETF) (***read more about our three access points in our Offshore Investing Corolab***).

Despite being held in rands, there are strategic benefits to utilising a dollar-based managed income AMETF in your JSE investment portfolio. These benefits include:

- Easy access to US dollar exposure within your JSE investment portfolio;
- Active management aimed at outperforming US dollar cash whilst protecting capital; and
- Global diversification across a broad spectrum of yielding asset classes.

Choosing the right Coronation managed income fund for your needs

The following table highlights the key differences between our three most popular managed income funds.

	Coronation Strategic Income	Coronation Active Income	Coronation Global Strategic USD Income
Investment objective	Traditional income fund aimed at keeping its risk profile in line with the desired fund return.	Can explore opportunities outside of traditional income fund risk profiles to achieve desired return.	Traditional global income fund aimed at keeping its risk profile in line with the desired fund return.
Time horizon	12-36 months	36 months +	12 months +
Benchmark	110% of SA cash*	SA cash composite**	110% of USD cash***
Return target	SA cash +2%	At least SA cash +2%	USD cash +2%
Investment universe	Money market NCDs; government, parastatal, corporate and inflation-linked bonds; listed property; offshore bonds; preference shares		Global money market NCDs; global government, parastatal, corporate and inflation-linked bonds; global listed property; global preference shares; other forms of hybrid debt or equity instruments
Capital Preservation	12 months		
Risk Limits	Listed property (10%) Offshore bonds/ cash (10%) Hybrid fixed income (5%)	Listed property (10%) Offshore bonds/ cash (25%) Hybrid fixed income (5%)	Up to 25% of the fund may be invested in listed property (max 10%), preference shares and other forms of hybrid debt or equity instruments
Modified duration	Max 2 years	>4 years	Max 3 years

*Alexander Forbes STeFI Index

**Alexander Forbes STeFI Composite Index

***Secured Overnight Financing Rate

Best-in-class fund disclosure

To help make it easier for investors to end up in the right income fund that meets their desired risk and return profile, our best-in-class fund disclosure addresses the risk taken to achieve the funds' desired return.

This includes detailed reporting on the type of credit to which the funds have exposure, exposure to offshore instruments, as well as detailed asset allocation exposure (as shown in the table below).

Our best-in-class fund disclosure	
Credit	+ Breakdown of credit ratings + Weighted average time to maturity + Exposure to structured products + Reference entity exposure + Pricing frequency
Offshore	+ Gross exposure + Net exposure
Asset allocation	+ Subordinated debt exposure + State-owned entities exposure + Structured product (CLN) exposure

Check your investment time horizon

It is important to remember that 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 your purchasing power.

How our managed income funds achieve their return profiles

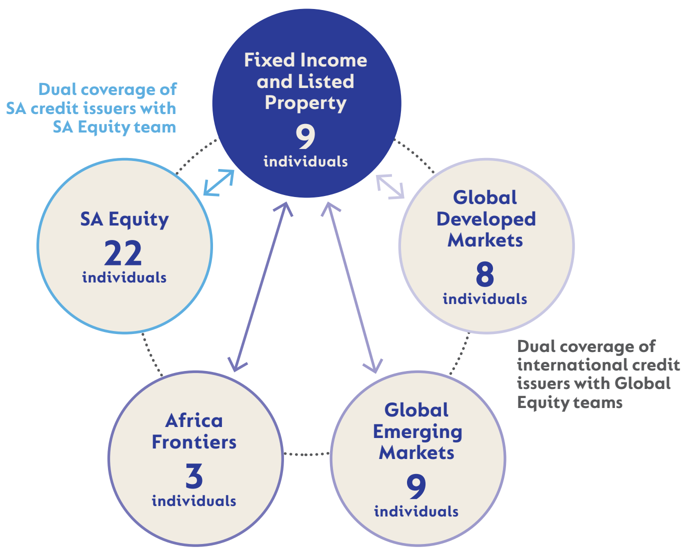
We apply the following fundamental principles to deliver on the stated risk and return objectives of our range of income funds.

1. A broad and deep team supporting these return profiles

Our fixed income team of 9 specialists is well-resourced and fully integrated into our global investment team of more than 50 professionals (see below).

These specialists provide vital inputs to extract maximum value across the potential return enhancers 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.

>50 fully integrated investment professionals



2. Robust portfolio construction

As with equities, we believe we can add value to investors in our income funds through bottom-up security selection when assets are mispriced.

Our approach to asset allocation within the local and global fixed income universes mirrors that of the broader Coronation investment team, but the process is overlaid with certain constraints given the needs of our income fund investors. These constraints include allocating to a blend of assets that:

- can deliver on our income funds' respective performance objectives (see table in the prior section);
- while prioritising capital preservation over 12 months; and
- providing liquidity to investors with immediate income needs (such as those drawing a regular retirement income).

The following visual demonstrates our process, from research to how we ultimately build our portfolios.

Bottom-up proprietary research

The research effort of the entire global investment team supports our bottom-up financial analysis of a fixed income instrument.

Valuation

Once our research is complete, we translate the fundamentals of the instrument into a valuation.

Less liquid instruments will demand cheaper valuations and, as such, will represent a smaller portion of the overall portfolio when it comes to construction.

Portfolio construction

The research and valuation steps culminate in robust portfolio construction where we ensure that we:

- understand the downside for each instrument;
- constrain asset allocation based on liquidity;
- include assets with contrasting relationships; and
- use quantitative tools to assess the portfolio's risk profile.

3. Placing capital at risk

The reality is that in order to outperform cash, we need to take risk within our income portfolios. However, we never do this at the expense of our capital preservation commitment, or if it puts the fund at risk of underperforming cash.

So we set out to put capital at risk according to the following guardrails.

Taking considered interest rate (duration) and credit risk where appropriate

The following table explains the two types of risk and how we manage exposure to these across our income portfolios.

	Type of risk	How we take and manage exposure to this risk
Interest rate risk	**The risk that arises for bond owners from fluctuating interest rates.** For example, when a bond's fixed rate is lower (i.e., less attractive) than the prevailing market interest rate, the market price of the bond decreases (i.e., the value of your asset declines). The longer the period to maturity for the bond in issue, the more significant 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.	We consider all factors influencing the fixed interest investment cycle and actively manage the portfolios' overall interest rate risk to optimise the expected risk-adjusted return. The table in the prior section (*Coronation's managed income solutions*) details the duration limits we adhere to in each of our managed income funds.
Credit risk	**The risk that a borrower cannot return the capital to the lender at the stipulated time, or make the agreed-upon interest payments.** Credit risk associated with corporate bonds is higher than government bonds, as in a worst-case scenario, the government is assumed to be able to print money to make good on its obligations. Corporates therefore borrow at a higher rate than governments. The difference between corporate and government bond interest rates is called 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. We are typically more conservative in our credit risk management than many other funds in the domestic income category.

Actively managing our exposure to alternative sources of return when the likelihood of outperformance is high

To achieve our internal performance targets over the corresponding investment time horizons, one could argue that it is as simple as building a portfolio that only comprises instruments that offer yields in excess of cash.

However, allocating to alternative sources of return that offer protection and diversifying qualities requires careful analysis of the prevailing market environment and then to dynamically adjust exposure when the likelihood of outperformance changes as detailed in the visual below.

Alternative sources of return:

Protect against rising interest rates

+ Floating-rate notes
Offer a yield pick up of, on average, 1% over prevailing money market rates. We favour these instruments when interest rates are expected to remain flat or start to rise.

+ Corporate credit
Creates the opportunity for capital gains when the spread on good quality corporate credit narrows (typically in an improving economy which typically coincides with a rising interest rate environment).

Protect against rising inflation

+ Inflation-linked bonds (ILBs)
Offer inflation protection and an uplift in yield during inflation upswings, making them a great diversifier in any multi-asset class portfolio. ILBs are also less correlated to other asset classes, reducing portfolio volatility.

+ Listed property
Protects 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 is limited in our funds.

Achieve diversification

+ 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.

+ Preference shares
Exposure is limited to this asset class due to more volatile price behaviour compared to fixed interest investments. See table in prior section (*Coronation's managed income solutions*).

4. Avoiding excessive risk for certainty of return

As part of our disciplined portfolio construction process, we never aim to increase our managed income funds' risk profile or performance by increasing the possibility of investor downside.

This means that we won't attempt to deliver more than the stated return target if we believe it will put our capital preservation commitment at risk or if it will result in us underperforming cash. 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.

How our managed income funds have delivered on their return profiles

Don’t expect a linear return series

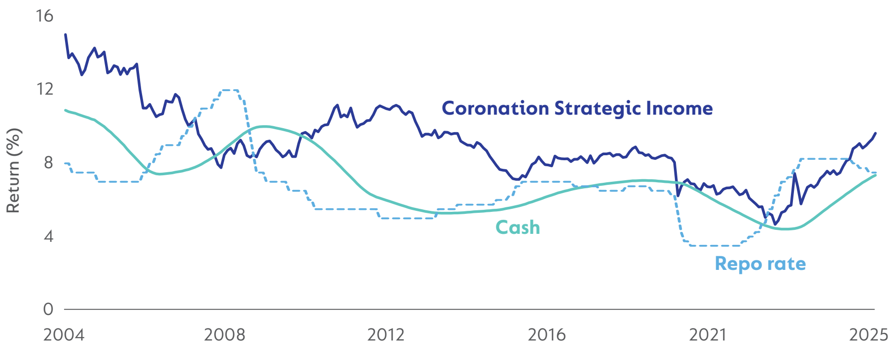
As explained before, the need to put capital at risk through the portfolio decisions means that our income funds will not have a linear return series like that of a money market fund.

Over short measurement periods, performance can fluctuate. However, we will never position our income fund portfolios 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).

Sometimes, in the short term, these funds will not deliver on their cash plus targets. Rising interest rate environments make it more challenging to provide cash plus returns. **When rates are falling, it becomes easier to achieve this goal** (as shown in the chart and table below). However, we are confident that we can consistently deliver on the funds’ cash plus targets through the cycle.

Consistently outperforming cash over more than two decades

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



Average monthly returns since inception of Coronation Strategic Income*

	When rates are rising	When rates are falling
Coronation Strategic Income	0.73%	0.81%
Cash	0.65%	0.54%

* July 2001

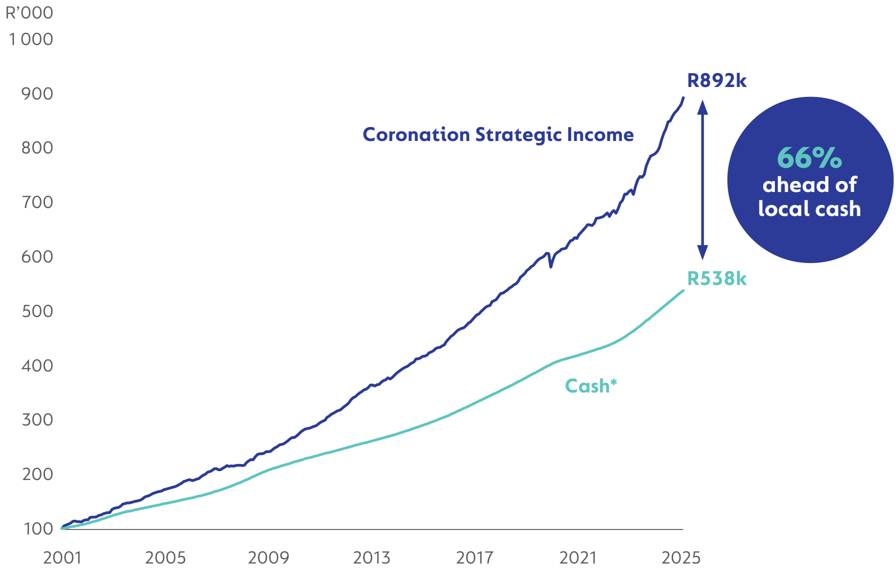
Source: Coronation, as at end-April 2025

Expertise that culminates in desired outcomes for conservative investors, both locally and offshore

Our flagship domestic income fund, **Coronation Strategic Income**, consistently outperformed cash over its almost 24-year history, resulting in a value uplift of 66%, as shown in the graph below.

Significant value add compared to domestic cash over more than two decades

Growth of R100 000 investment since inception



* Alexander Forbes 3-month (STeFI) Index

Source: Morningstar as at 30 April 2025

Equally, the **Coronation Active Income Plus**, albeit over a less than two-year period, has comfortably outperformed its cash benchmark (see following table) since inception in December 2023.

Coronation Active Income Plus Fund

Performance for periods ending 30 April 2025

	Coronation Active Income Plus Fund	STeFI Composite	Alpha
*** SI (annualised)**	12.6%	8.3%	4.3%
1 year	13.8%	8.2%	5.6%
6 months	5.5%	3.9%	1.6%
3 months	2.9%	1.9%	1.0%

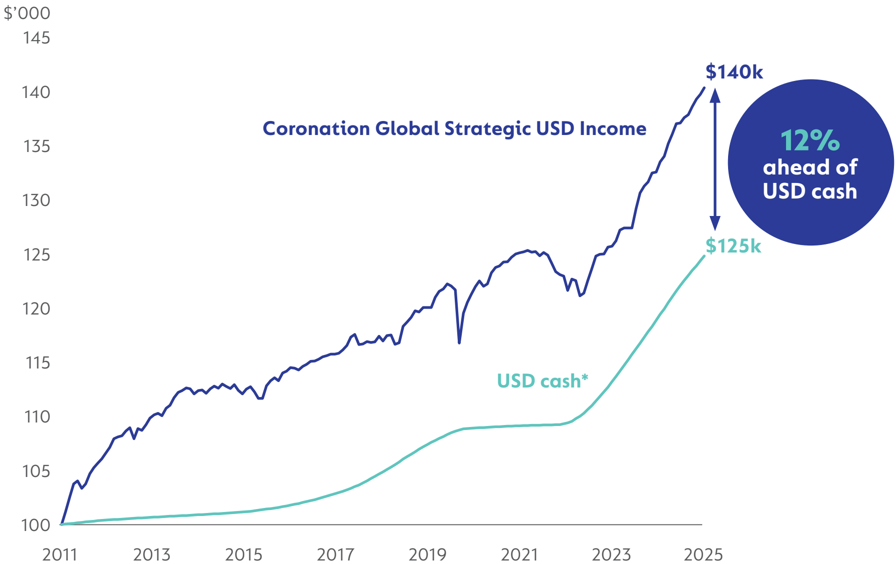
* Since inception December 2023

Source: Coronation

Coronation Global Strategic USD Income produced returns ahead of US dollar cash over its almost 14-year track record, resulting in a value uplift of 12% compared to USD cash since inception, as shown in the graph below.

More than a decade's worth of value add compared to USD cash

Growth of $100 000 investment since inception



* Secured Overnight Financing Rate spliced with USD 3-month LIBOR prior to 1 December 2021

Source: Morningstar as at 30 April 2025

Conclusion

This edition explained the essential role that a local or global managed income fund can play in an investor's overall portfolio. It also demonstrated the fundamental principles we apply to our range of managed income funds to arrive at their stated risk and return objectives. And as demonstrated in the long-term track records of our two flagship income funds, **Coronation Strategic Income** and **Coronation Global Strategic USD Income**, this approach has created significant value relative to local or US dollar cash over multiple decades.

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