

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, in a manner similar to that usually employed by retirement funds.

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% on an effective exposure basis*) 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.

* Prudential (SARB) international exposure is typically limited to a maximum of 15%

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

Maximum growth/
minimum income exposures

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 0.45%.

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

Fund Launch Date	2 July 2001
Fund Class	P (previously class B4)
Class Launch Date	1 October 2012
Benchmark	110% of STeFI 3-month index
ASISA Fund Category	South African – Multi-asset – Income
Income Distribution	Quarterly (March, June, September, December)
Bloomberg Code	CORSTB4
ISIN Code	ZAE000170403
JSE Code	CSIB4

CLASS P as at 31 August 2024

ASISA Fund Category	South African - Multi Asset - Income
Launch date	01 October 2012
Fund size	R36.66 billion
NAV	1588.12 cents
Benchmark	110% of the STeFI 3-month Index
Portfolio manager/s	Nishan Maharaj and Mauro Longano

Total Expense Ratio	1 Year	3 Year
Fund management fee	0.53%	0.50%
Fund expenses	0.44%	0.42%
VAT	0.01%	0.01%
Transaction costs (inc. VAT)	0.07%	0.06%
Total Investment Charge	0.00%	0.00%
	0.53%	0.50%

PERFORMANCE AND RISK STATISTICS

PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	778.1%	501.7%	276.4%
Since Launch (annualised)	9.8%	8.1%	1.8%
Latest 20 years (annualised)	9.0%	7.5%	1.5%
Latest 15 years (annualised)	8.8%	6.7%	2.1%
Latest 10 years (annualised)	8.2%	6.9%	1.3%
Latest 5 years (annualised)	7.7%	6.3%	1.3%
Latest 3 years (annualised)	8.6%	7.1%	1.5%
Latest 1 year	12.2%	9.2%	3.0%
Year to date	7.8%	6.0%	1.7%
Yield (Net of Fees)	9.1%		

RISK STATISTICS

Current	Fund	Benchmark
Weighted average time to maturity (credit)		2.4 years
Modified Duration		1.5 years
Modified Duration (ex Inflation Linked Bonds)		1.1 years
Since Inception	Fund	Benchmark
Annualised Deviation	2.7%	0.7%
Sharpe Ratio	0.81	
Maximum Gain	60.8%	
Maximum Drawdown	(4.2)%	
Positive Months	91.7%	
	Fund	Date Range
Highest annual return	18.7%	Nov 2002 - Oct 2003
Lowest annual return	2.5%	Apr 2019 - Mar 2020

CREDIT RATINGS

	% of Fund
AAA+ to A-	83.2%
BBB+ to B-	1.7%
CCC+ to C-	0.0%
CLNs	10.0%
No Rating	5.1%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
28 Jun 2024	01 Jul 2024	35.53	0.27	35.26
28 Mar 2024	02 Apr 2024	32.30	0.00	32.30
29 Dec 2023	02 Jan 2024	36.22	0.11	36.10
29 Sep 2023	02 Oct 2023	34.05	0.05	34.00

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2024	1.0%	0.3%	0.3%	0.6%	1.0%	1.8%	1.5%	1.2%					7.8%
Fund 2023	1.6%	0.1%	0.7%	0.4%	(1.1)%	2.1%	1.6%	0.9%	(0.3)%	0.8%	2.1%	1.4%	10.9%
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%	5.3%
Fund 2021	0.4%	0.7%	(0.2)%	1.2%	0.7%	0.7%	0.6%	0.9%	(0.1)%	(0.1)%	0.6%	1.5%	7.1%
Fund 2020	0.8%	(0.1)%	(4.1)%	2.5%	1.6%	0.8%	0.4%	0.6%	0.1%	0.3%	1.2%	1.0%	5.0%

PORTFOLIO DETAIL

ASSET ALLOCATION BY INSTRUMENT TYPE

	Domestic Assets	International Assets
Cash and Money Market NCDs	36.1%	0.1%
Fixed Rate bonds	18.4%	3.3%
Floating Rate bonds	15.9%	0.4%
Inflation-Linked bonds	13.4%	0.2%
Credit Linked Notes (CLNs)	3.0%	7.0%
Listed Property	2.0%	0.0%
Preference shares	0.1%	0.0%
Other (Currency Futures)	0.0%	0.0%
Total	88.9%	11.0%
Net offshore exposure after currency hedge		4.0%

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Banks and Insurers: NCDs & Deposits	36.9%
Banks: Senior Debt	23.3%
Government	19.7%
Other Corporates	9.2%
State Owned Enterprises	2.4%
REITs: Equity and Debt	2.0%
Banks: Subordinated debt (<12m)	1.6%
Banks: Subordinated debt (>12m)	1.4%
Insurers	1.4%
Coronation Global Bond Fund	1.3%
Coronation Global Strategic Income	0.8%
Currency Futures	0.0%
Total	100.0%

TOP 5 CREDIT EXPOSURE

	% of Fund
Republic Of South Africa	26.5%
Standard Bank Of SA Ltd	18.1%
Absa Bank Ltd	15.6%
Nedbank Ltd	14.5%
Firststrand Bank Ltd	8.6%

TOP 5 REFERENCE ENTITY EXPOSURE

	% of Fund
Republic of South Africa	6.3%
Nepi	0.6%
CDX IG	0.5%
Sasol limited	0.2%
Prosus	0.6%

100% of CLN exposure is issuer valued with a daily or at worst weekly price frequency

Please note that the commentary is for the discounted class of the Fund.

Performance and fund positioning

The Fund returned 1.18% in August, bringing its 12-month total return to 12.20%, which is ahead of cash (8.30%) and its benchmark (9.15%) over the same period. We continue to believe that the Fund's current positioning offers the best probability of achieving its cash +2% objective over the medium to longer term.

Local bonds had a solid performance in August. The FTSE/JSE All Bond Index (ALBI) delivered 2.38%, with the long end of the curve (12+ years) producing the best performance, up 3.14%. The belly of the curve (7-12 years) closed 2.47% higher, while medium-term bonds (3-7 years) returned 1.72%. Short-term bonds (1-3 years) were up 0.99%, while cash returns were muted at 0.67%. Inflation-linked bonds (ILBs) were up 2.24% for the month.

The UK and South Africa (SA) released soft economic growth readings for the second quarter of 2024 (Q2-24). July inflation data were a mixed bag, with the UK, China and euro area slightly edging up, while the US and SA continued to show price moderation.

US headline inflation edged lower to 2.9% year on year (y/y) in July from 3.0% y/y in June, while core inflation eased to 3.2% y/y from 3.3% y/y. The main driver of the decline was a fall in used car prices and continued moderation in food inflation. Energy costs remained flat, and inflation in certain core services categories, such as housing rentals and car insurance, remained elevated.

In emerging markets, China's headline inflation was up just 0.5% y/y in July from 0.2% y/y in June. The increase was due to higher food prices as a result of adverse weather conditions. Core items such as vehicles, electronics, and household utilities experienced price declines. Deflation in the Producer Price Index continued, falling another 0.8% y/y in July from a decline of 0.8% y/y in June.

SA's economy grew by 0.4% q/q in Q2-24 from 0% q/q (upwardly revised) in Q1-24. From the production side, seven out of 11 subsectors saw growth recover, while agriculture was weak following a period of drought, and mining also contracted. From the expenditure side, there was a decent recovery in household and government spending. This was offset by weak net trade and another contraction in gross fixed capital formation. Growth in Q2-24 points to a nascent recovery in economic activity off a weak base, but with poor momentum. The outlook for the rest of the year remains positive on the back of moderating inflation, which will provide support for real incomes, the possible uplift from two-pot system income, and the prospect of lower interest costs. Incremental easing of logistics constraints should help both transport sectors and exports at the margin, but a more meaningful contribution from capital expenditure is needed to build stronger, more enduring momentum. Disappointingly, the sustained support from suspended loadshedding has not yet been felt in the activity data.

The rand ended the month at R17.80/US\$1, putting the currency's performance ahead of its EM peer group since the beginning of the year. Offshore credit assets and certain developed market bonds continue to flag as relatively attractive. The Fund has utilised a significant part of its offshore allowance to invest in these 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 its exposure synthetically, allowing it to maintain its core holdings in offshore assets.

SA headline inflation eased to 4.6% y/y in July from 5.1% y/y in June, while core inflation reduced to 4.3% y/y from 4.5% y/y. The main reason for the headline moderation was lower food inflation, a fall in alcoholic beverages and tobacco prices, and a decline in transport costs. The outlook for headline inflation in the near term continues to improve, with the stronger currency supporting ongoing easing in retail fuel prices, aided by low food inflation. We expect the South African Reserve Bank to cut the repo rate by 25 basis points to 8.0% in September.

At the end of August, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 8.24% (three-year) and 8.73% (five-year), significantly lower compared to the end of the previous month. 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.

Global monetary policy remains conducive for risk assets, which should remain supportive of flows into emerging markets. SA has seen a significant reduction in risk premium following the formation of the Government of National Unity and the inclusion of the pro-reformist opposition into cabinet. SA inflation has benefited from both local and global factors and should support a shallow rate-cutting cycle starting towards the tail end of 2024. However, low growth, upside risks to inflation, and burgeoning deficits will continue to weigh on the longer-term outlook for SA, unless reform implementation is accelerated. SA's bond yields have seen significant compression, with the margin of safety narrowing significantly, both on an absolute basis and relative to the emerging market peer group. There might be slightly more juice left in the SA bond rally. But we believe that SA bonds now trade at or very close to fair value. A more positive shift in underlying fundamentals is needed to justify tighter valuations and outperformance. Thus, we would advocate positions closer to neutral in bond portfolios.

The local listed property sector was up 8.4% over the month, bringing its 12-month return to 36.7%. Operational performance will remain in the spotlight as an indicator of the pace and depth of the sector's recovery. The current subdued growth outlook, combined with an increase in the cost base due to higher administered prices and second-round effects on loadshedding, will weigh on the sector's earnings in the coming year. We believe that one must remain cautious given the high levels of uncertainty around the strength and durability of the local recovery.

We believe that allocating significant amounts of capital to the local credit market is unwise and would represent a substantial opportunity cost in the face of attractive valuations in other, more liquid asset classes. The current level of credit spreads on offer are at historically compressed levels despite SA being close to the weakest economic position in its history. Corporate profitability and creditworthiness are inevitably tied to economic outcomes, with significant polarisation in performance.

The use of structured products, such as credit-linked notes (CLNs), has become ubiquitous within the local market. This sector of the market has grown exponentially over the last five years and has reached a market size of over R100 billion. However, only a third of this market reprices, creating an inaccurate representation of asset volatility and pricing. CLNs mask the underlying/see-through credit risk as the issuing entity (predominantly local banks) is seen as the primary credit risk. The increased usage of CLNs has not expanded the pool of borrowers, rather it has only served to concentrate it. This is due to the ability to limit the volatility of these instruments by not marking them to market¹ based on the underlying asset price movements. This is why CLN repacks of SA government bonds have become so popular over the last five years. The combination of attractive yields and no volatility is an opportunity that not many would pass up, unless, of course, transparency of pricing is important to the underlying investor. As a result, there can be significant unseen risks within fixed-income funds. Investors need to remain prudently focused on finding assets of which the valuations are correctly aligned to fundamentals and efficient market pricing.

Outlook

We remain vigilant of the risks 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, while its yield of 9.58% (gross of fees) remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected portfolio 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 August 2024

¹ Valuations are not regularly adjusted to mirror their current value

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 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. The yield disclosed on the MDD is current and calculated as at the MDD reporting date.

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) Ltd (FSP 548), 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 P NAV prices with income distributions reinvested. Class A NAV prices were used for the period prior to the launch of Class P. 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

This document is for information purposes only and does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe for or purchase any particular investment. Opinions expressed in this document may be changed without notice at any time after publication. We therefore disclaim any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of or reliance upon the information.