Strategic Income aims to achieve a higher return than a traditional money market or pure income fund.

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.

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.

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.
CORONATION STRATEGIC INCOME FUND

CLASS P as at 31 July 2020

Fund category: South African - Multi Asset - Income
Launch date: 01 October 2012
Fund size: R47.14 billion
NAV: 1520.80 cents
Benchmark/Performance: 110% of the STeFI 3-month Index
Fee Hurdle: 110% of the STeFI 3-month Index
Portfolio manager/s: Nishan Maharaj and Mauro Longano

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)

PERFORMANCE AND MODIFIED DURATION (AFTER FEES)

ASSET ALLOCATION BY INSTRUMENT TYPE

ASSET ALLOCATION BY ISSUER TYPE

TOP 5 ISSUER EXPOSURE

INCOME DISTRIBUTIONS
Please note that the commentary is for the discounted class of the fund.

The fund returned 0.4% in July, bringing its total return to 5.0% for the 12-month period.

Local bonds delivered an unequipping but positive performance in July. The All Bond Index returned 0.6%, mainly lifted by the belly of the curve (3-7 years), which returned 1.5%. Subordinated bonds (1-3 years) returned 1.3%, and bonds with a maturity of 7-12 years returned 0.8%. The long-end of the curve (12+ years) performed poorly, returning 0.0%, while inflation-linked bonds (ILBs) also performed badly and returned -1.1%. Cash earnings were slightly lower at 0.3%, reflecting recent rate cuts.

The Federal Reserve Board (Fed) left the Fed funds rate unchanged at a range of 0.00-0.25% in July. The Fed further stated that any changes to the policy rate will largely depend on the trajectory of the coronavirus pandemic. The Fed will continue with its asset purchasing programme and stands ready to deploy any tools required to sustain smooth market functioning. The first reading of second-quarter GDP for the US came in at 32.9% seasonally adjusted annualised (saar) quarter-on-quarter (q/q). The contraction was fuelled by a decline in consumer spending and low business investment. US headline inflation increased to 0.6% year-on-year (y/y) in June from 0.1% y/y in May. A rebound in fuel prices contributed to the inflation uptick.

The rand was stronger, as it gained 1.7% against the US dollar, ending July at US$1.17.07. The easing of lockdown measures globally and initial indications that the expected contraction would not be as severe as initially thought, served to buoy risk sentiment and emerging market currencies. However, the local fundamental backdrop remains quite poor. The Fund maintains its healthy exposure to offshore assets and, when valuations are stretched, will hedge/unhedge portions of its exposure back into rand/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.

In emerging markets, China’s second-quarter GDP growth came in at 11.5% saa q/q, up from a contraction of 9.8% saa q/q in the first quarter of the year. Growth was boosted by an increase in industrial production and an increase in consumer demand following the early easing of Covid-19 lockdown restrictions. Headline inflation rose to 2.5% y/y in June from 2.4% y/y in May, with food prices contributing to the higher headline inflation. Elsewhere in emerging markets, the impact of Covid-19 on growth is still evolving. A range of central banks have announced lower interest rates and active (or intentions to implement) interventions in government bond markets through quantitative easing (QE) programs. Broadly, emerging market inflation should moderate in the coming months due to lower oil prices, although significantly weaker currencies pose some threat to inflation in the longer term.

The South African Reserve Bank (SARB) cut the repo rate by 25 basis points (bps) from 3.75% to 3.5% at its July monetary policy meeting. Governor Kganyago was again clear that while the SARB has, and will continue, to support economic activity and ease financial conditions, it cannot improve the potential growth rate of the economy or reduce fiscal risks. South Africa’s economy needs fiscal policies to be implemented before growth can improve. The SARB revised down its growth expectations; expecting GDP to contract by 7.3% in 2020 before recovering to 3.1% in 2021 and 2.8% in 2022. Inflation risks are seen to remain balanced, averaging 3.4% by year end and picking up to 4.3% in 2021.

Headline inflation for June printed at 2.2% y/y vs May’s 2.1% y/y. The slight uptick in inflation was due to an increase in fuel prices, while rentals and OER inflation remains very low. Other activities or goods that recorded increases include restaurant and hotel activity, recreational activities and alcoholic beverages. Core inflation eased to 3% y/y from 3.1% in May. Prices are expected to rise as economic activity starts picking up. However, inflation should remain well below the SARB’s 4.5% midpoint in coming months, leaving room for further monetary policy easing.

The International Monetary Fund (IMF) agreed to disburse $4.3bn in emergency funding to South Africa through its Rapid Financing Instrument (RFI) at the end of July. This is the largest RFI disbursed to any country in this crisis to date. The RFI does not carry any conditionalities; the application made by the government is an implicit (necessary) commitment to implementing policies which will not only commit to the repayment of the loan, but which should help mitigate the risk of needing further funding. The government commits to help stabilize debt through limiting the wage-to-GDP ratio, maintaining expenditure cuts, rationalizing payments to SOEs and streamlining subsidies. The Fund’s yield of 6.5% (gross of fees) 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 July 2020

The FTSE/JSE Preference Share Index was down 2.8% over July, bringing its return to -16.5% over the 12-month period. Preference shares offer a steady-dividend yield linked to the prime rate and, depending on the risk profile of the issuer, currently yield between 8% and 10% (subject to a 20% Dividends Tax, depending on the investor entity). The change in capital structure requirements mandated by Basel III will discourage banks from issuing preference shares. This will limit availability. In addition, most of the bank-related preference shares trade at a discount, which enhances their attractiveness for holders from a total return perspective and increases the likelihood of bank buybacks. Despite attractive valuations, this asset class will continue to dissipate, given the lack of new issuance and because it risks being classified as eligible loss-absorbing capital (only senior to equity). The Fund maintains select exposure to certain high-quality corporate preference shares, but will not actively look to increase its holdings.

We remain vigilant of the risks emanating from the dislocations between stretched valuations and the underlying fundamentals of the local economy. However, we believe that the Fund’s current positioning correctly reflects appropriate levels of caution. The Fund’s yield of 6.5% (gross of fees) 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.

The local listed property sector was down 3.4% over July, bringing its return to -41% over the rolling 12-month period. Listed property has been the largest drag on the Fund’s performance. This has resulted in a general rise in balance-sheet risk across the sector. The current crisis will reduce rental income, put pressure on asset values, increase the cost of borrowing for lower-quality businesses, and test inexperienced management teams. It is entirely possible that most of the companies will require additional capital and that dividends are suspended to preserve capital. One must be cautious not to take these at face value and understand how the key issues mentioned above affect that yield. We believe there are a few select large-cap counters that satisfy our stringent conditionality.
**IMPORTANT INFORMATION THAT SHOULD BE CONSIDERED BEFORE INVESTING IN THE CORONATION STRATEGIC INCOME FUND**

Unit trusts should be considered medium-term 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 up to 10% of its portfolio 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 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. 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 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 September 2019 (updated annually). The 3 year TER is for a rolling 36-month period to the last 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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