CORONATION

STRATEGIC CASH STRATEGY

INSTITUTIONAL STRATEGY FACT SHEET AS AT 31 DECEMBER 2018

CORONATION
TRUST IS EARNED™

LONG TERM OBJECTIVE

The Coronation Strategic Cash Strategy has a low-risk approach aimed at delivering enhanced cash returns that are superior to those of overnight cash rates while maintaining full capital preservation. The portfolio duration is limited to 180 days and the maximum term to maturity of an individual instrument does not exceed 3 years.

INVESTMENT APPROACH

Coronation is a long-term, valuation-driven investment house. Our aim is to identify mispriced assets trading at discounts to their fair value through extensive proprietary research. The fixed income portfolios are positioned on a long term strategic market view, but this is balanced by taking advantage of shorter-term tactical opportunities when the market lags or runs ahead of that strategic view. As active managers, we consider investment decisions across the full spectrum of potential return enhancers. These include duration and yield curve positions, inflation-linked assets as well as yield enhancement through credit enhanced assets. We aim to maximise returns by actively combining both a top-down and a bottom-up approach to portfolio construction.

STRATEGY RETURNS GROSS OF FEES

Period	Strategy	Benchmark	Active Return
Since Inception (cumulative)	260.8%	209.0%	51.8%
Since Inception p.a.	8.4%	7.4%	1.0%
Latest 15 years p.a.	8.2%	7.1%	1.1%
Latest 10 years p.a.	7.9%	6.4%	1.5%
Latest 5 years p.a.	8.0%	6.6%	1.4%
Latest 3 years p.a.	8.6%	7.0%	1.6%
Latest 1 year	8.7%	6.9%	1.8%
Year to date	8.7%	6.9%	1.8%
Month	0.7%	0.6%	0.1%

ASSET ALLOCATION

Asset Type	% Strategy
Floating Rate NCDs	60.3%
Floating Rate Corporate Bonds	23.5%
Fixed Rate NCDs	10.3%
Fixed Rate Corporate Bonds	3.7%
Cash	2.2%

GENERAL INFORMATION

Inception Date	01 March 2003
Strategy Size	R3.68 billion
Strategy Status	Open
Mandate Benchmark	Short Term Fixed Interest 3-month Index (STeFI 3m)
Dealing Frequency	Daily
Base Currency	ZAR

GROWTH OF R100M INVESTMENT

Benchmark: Short Term Fixed Interest 3-month Index (STeFI 3m)

EFFECTIVE MATURITY PROFILE

Term	% Strategy
Call	2.2%
0 to 2 months	0.0%
2 to 4 months	0.8%
4 to 6 months	0.5%
6 to 9 months	11.6%
9 to 12 months	9.3%
1 to 3 years	75.6%
3 to 7 years	0.0%

STRATEGY STATISTICS

Modified Duration	0.2

PORTFOLIO MANAGERS

Nishan Maharaj - BSc (Hons), MBA

Nishan is head of Fixed Interest and responsible for the investment unit's process and performance across all strategies. He also manages the majority of fixed interest assets. Nishan has 15 years' investment experience.

Mauro Longano - BScEng (Hons), CA (SA)

Mauro joined Coronation's Fixed Interest investment unit in 2014 and is responsible for co-managing the Strategic Cash and Medical Aid Cash strategies. In addition to this, he is involved in credit research and pricing. Mauro has 7 years' investment experience.

Sinovuyo Ndaleni - BBusSc

Sinovuyo is a portfolio manager within the Coronation Fixed Interest investment unit, where she co-manages the Coronation Strategic Cash and Medical Aid Cash strategies. She also has various analytical responsibilities. Sinovuyo joined Coronation in January 2016.

DISCLAIMER

REVIEW FOR THE QUARTER

The strategy generated healthy returns in the fourth quarter of 2018, keeping performance comfortably ahead of the 3-month STeFI benchmark return over the quarter and rolling 12-month periods.

The South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) raised the repo rate by 25 basis points (bps) to 6.75%, despite downward revisions to both inflation and growth forecasts. The decision largely reflected the Governor's consistent view about the need to anchor inflation expectations towards 4.5%, the midpoint of the target range. The vote was not, however, unanimous and shows that there are still a range of views represented on the committee.

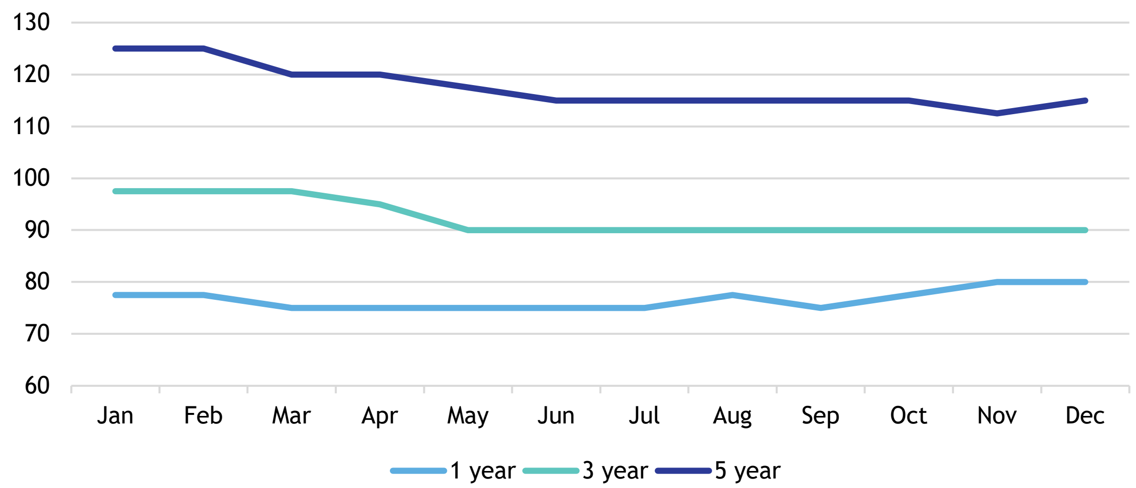
Consumer price inflation surprised on the upside, printing at 5.2% year-on-year (y/y) in November 2018. This print, however, does not change our benign inflation outlook given that the large retail fuel price cut in December was not surveyed. We currently expect inflation to peak at 5.6% in 2019, largely due to base effects, slightly higher food inflation and the effect of a weaker currency. This is still within the SARB's inflation target band and, in addition, the general growth environment for the country remains weak, with the most recent GDP growth number at 1.1% y/y. Our current view is for two additional 25bps interest rate hikes over the course of 2019 to take the repo rate to 7.25% by year end. The market remains indifferent, with around a 50% chance of a single interest rate hike being priced over the next 12 months.

The 3-month JIBAR index, off which most of the floating rate instruments in the strategy are priced, has increased to 7.2%, given the hike in the repo rate. This compares to an average rate of 7.0% for the previous period. All the floating-rate instruments in the strategy reset to the prevailing 3-month JIBAR rate every three months post their initial investment date. As such, the increase in the JIBAR rate should provide some uplift to the strategy's yield over the next quarter. Given our expectation for two further interest rate hikes over the next year, this bodes well for the strategy's yield in 2019.

The last quarter has seen spreads on NCDs (Negotiable Certificates of Deposit) remain largely constant, breaking the trend of continued compression seen for most of 2018. The notable exception to this has been one-year NCD spreads, which continue to widen. A one-year fixed-rate NCD is now being offered at 8.3%, which is attractive, given the return profile of the strategy, provided that the duration restriction of the mandate is not breached.

The contraction in NCD credit spreads witnessed over the last year continues to be positive for the strategy, although the benefit is only received when an NCD is sold back to the issuing bank. As such, there is no immediate yield uplift, but the benefit should materialise over time, as the strategy routinely creates liquidity by trading in these instruments. Going forward, we continue to see the risks to NCD spreads as being broadly balanced, with the strategy being well placed to handle adverse market moves.

FLOATING RATE NCD SPREADS ABOVE JIBAR



A market we are carefully watching remains that of South African Treasury Bills. It was stated in the Medium Term Budget Policy Statement (MTPBS) that these instruments will play a greater role in government's funding requirements going forward. This increased supply will likely have an impact on Treasury Bill yields in future and, to a certain extent, we have already seen this starting to unfold. The yield on a 12 month Treasury Bill (8.4%) is now higher than that of a 12 month fixed rate bank NCD (8.3%). The Treasury Bill, in theory, comes with no credit risk but this must be considered relative to its more limited trading liquidity. Nonetheless, this yield is attractive for the strategy and we will continue to explore this opportunity.

Credit issuance in the primary market remains limited, which is partly a function of the low-growth environment. The weakness in GDP growth remains particularly concerning for credit markets from an overall supply perspective. For the ten months ending October 2018, issuance from banks was down 44.7%, with corporate issuance down 16.7%. This weakness has been broad based as evidenced by weak asset growth numbers from the banking sector and subdued credit extension.

Our current GDP growth expectations are for 1.8% in 2019. This is, however, largely predicated on an improvement in consumption expenditure rather than increased fixed capital formation. This does not bode well for issuance levels. We remain cautious and continue to only invest in instruments which are attractively priced relative to their underlying risk profile. Capital preservation and liquidity remain our key focus areas.