CORONATION STRATEGIC INCOME FUND

Fund Information as at 31 December 2018

CORONATION
TRUST IS EARNED™

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.

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.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

2/10
Conservative

Maximum growth/
minimum income exposures

Growth Assets: 25%
Income Assets: 75%

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?

An annual fee of 0.85% (excl. VAT) is payable.

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)

MARK LE ROUX
BCom

MAURO LONGANO
BScEng (Hons), CA (SA)

GENERAL FUND INFORMATION

Launch Date	2 July 2001
Fund Class	A
Benchmark	110% of STeFI 3-month index
Fund Category	South African – Multi-asset – Income
Regulation 28	Complies
Income Distribution	Quarterly (March, June, September, December)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORSTIN
ISIN Code	ZAE000031522
JSE Code	CSIF

CORONATION STRATEGIC INCOME FUND

CLASS A as at 31 December 2018

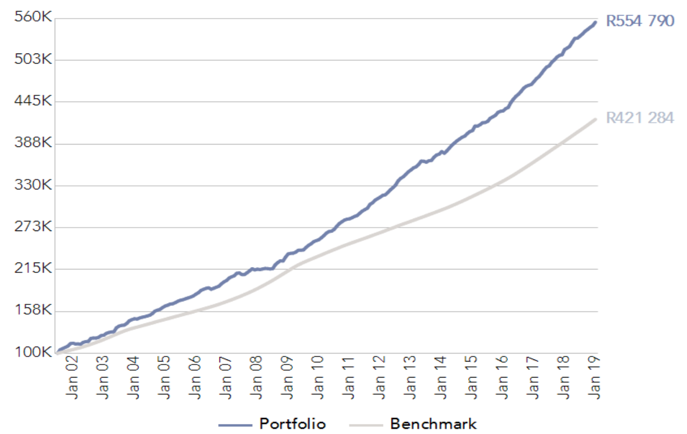
CORONATION
TRUST IS EARNED™

Fund category	South African - Multi Asset - Income
Launch date	02 July 2001
Fund size	R35.87 billion
NAV	1570.99 cents
Benchmark/Performance Fee Hurdle	110% of the STeFI 3-month Index
Portfolio manager/s	Nishan Maharaj, Mark le Roux and Mauro Longano

	1 Year	3 Year
Total Expense Ratio	0.99%	0.99%
Fund management fee	0.84%	0.85%
Fund expenses	0.03%	0.03%
VAT	0.12%	0.12%
Transaction costs (inc. VAT)	0.01%	0.01%
Total Investment Charge	1.00%	1.00%

PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PERFORMANCE AND MODIFIED DURATION (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	454.8%	321.3%	133.5%
Since Launch (annualised)	10.3%	8.6%	1.7%
Latest 15 years (annualised)	9.2%	7.9%	1.4%
Latest 10 years (annualised)	8.9%	7.0%	1.9%
Latest 5 years (annualised)	8.0%	7.2%	0.8%
Latest 3 years (annualised)	8.6%	7.8%	0.9%
Latest 1 year	7.3%	7.6%	(0.4)%
Year to date	7.3%	7.6%	(0.4)%

	Fund
Modified Duration	1.7
Modified Duration (ex Inflation Linkers)	1.4
Yield	9.3%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	2.6%	0.7%
Sharpe Ratio	0.84	N/A
Maximum Gain	60.5%	N/A
Maximum Drawdown	(1.3)%	N/A
Positive Months	92.9%	N/A

	Fund	Date Range
Highest annual return	18.7%	Nov 2002 - Oct 2003
Lowest annual return	2.6%	Jun 2007 - May 2008

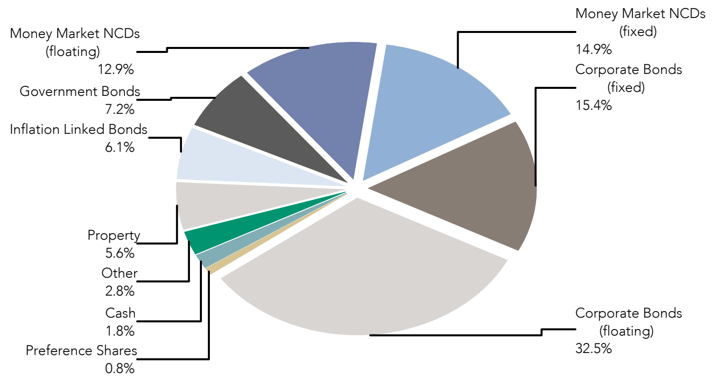
PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2018
Domestic Assets	88.2%
Cash	32.5%
Bonds	53.6%
Listed Property	4.9%
Preference Shares	0.8%
Other (Currency Futures)	(3.5)%
International Assets	11.8%
Cash	0.7%
Bonds	10.3%
Property	0.7%

PORTFOLIO COMPOSITION

As at 31 Dec 2018



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31 Dec 2018	02 Jan 2019	31.03	1.12	29.91
28 Sep 2018	01 Oct 2018	26.66	0.76	25.90
29 Jun 2018	02 Jul 2018	31.70	1.03	30.67
29 Mar 2018	03 Apr 2018	27.50	1.30	26.21

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2018	0.4%	0.4%	1.1%	1.0%	0.1%	0.5%	0.6%	0.7%	0.5%	0.5%	0.4%	0.9%	7.3%
Fund 2017	0.9%	0.5%	0.9%	1.0%	0.8%	0.4%	1.0%	0.6%	0.8%	0.5%	0.2%	1.4%	9.3%
Fund 2016	0.7%	0.3%	1.5%	1.0%	0.9%	0.6%	0.9%	1.0%	0.5%	0.3%	0.2%	0.8%	9.3%

Issue date: 2019/01/16

Please refer to page 4 of the Comprehensive Fact Sheet for important additional infomation, including change in cost disclosures.

Please note that the commentary is for the retail class of the fund.

If you want to see the sunshine, you have to weather the storm, but in order to weather and navigate the storm, you have to adjust your sails. At Coronation, we are constantly questioning the assumptions that underlie our valuation-driven approach to investing so as provide our clients with portfolios that are anti-fragile and best positioned to withstand the shorter effects of adverse volatility.

The fund returned 0.9% in December, bringing its total return to 7.3% for the year. This is ahead of the returns delivered by cash (6.9%) and behind its benchmark (7.6%) over the same one-year period. Over two and three years, the fund still remains well ahead of both cash and its benchmark. 2018 was a difficult year, with almost all investable assets classes underperforming cash. The exceptions were bonds (7.7%), preference shares (15.0%) and offshore assets (rand depreciated 13.8% against the US dollar). Over the years, we have continuously flagged that in periods of high volatility and over shorter measurement periods, investors should expect returns that are in line with that of cash. 2018 was such a year; however, the fund remains well positioned to benefit from the attractively priced assets that it currently owns.

2018 was a difficult year for emerging markets and more especially for emerging market fixed-income investors. The year started with tremendous promise as emerging market bond yields and currencies appreciated markedly. Then the tide turned. The US/China trade war escalated, raising concerns about global growth expectations, which we now know to be too high. Around about the same time, the US Federal Reserve (Fed) started to lift its expectations for the US economy and consequently, its expectations around US interest rates. This combination of higher-than-expected US rates, lower global investor confidence and slower global growth, painted a very poor picture for emerging markets. This change occurred so suddenly that many authorities in these markets were left with very little time to react, so valuations of emerging market currencies and bonds had to adjust and act as the pressure valve. Emerging markets with large external deficits were the first to suffer, as was evidenced by Turkey and Argentina, which were both down between 30% to 50%. Emerging market bonds were down 7.9% in US dollars for 2018, while emerging market bonds in their local currencies only returned a paltry 2.9%.

South Africa didn't fare much better, as concerns on the key policies (land, mining charter and state-owned enterprise (SOE) reform) and much slower growth weighed heavily on local asset price performance. The All Bond Index (ALBI) was up 7.7% for 2018, however the rand was down 13.8% to the US dollar, bringing South African government bond returns in US dollars to -7%. Performance across the various parts of the yield curve was pretty balanced, with the very front end of the curve outperforming. We see the performance at the front end of the yield curve (one to three year) as unsustainable given that this performance was in large part driven by the buyback of bonds in that area of the curve as part of National Treasury's switch auction programme. South African government bonds had a rollercoaster of a year, with the benchmark bond starting the year at 8.59%, hitting a high of 7.88%, then a low of 9.36% and ending the year at 8.87%. Inflation-linked bonds (ILBs) continued to suffer as real yields moved almost as much as nominal bonds (I2025 – low: 3.15%, high: 2.08%) primarily due to the adjustment lower in both medium- and longer-dated inflation assumptions. Due to the higher duration that these bonds carry, ILBs only managed to eke out a return of 0.3% for the year.

Global markets were very volatile in December, as they grappled with the ongoing steady rise in US interest rates at a time when global activity data have continued to slow. Political rhetoric in the US added to the uncertainty, while rising political tension was observed in parts of Europe as well as in China and Russia. In the UK, Prime Minister Theresa May survived a vote of no confidence, but has to date failed to secure support for the Brexit withdrawal agreement, creating heightened uncertainty for both UK politics and the economy. In emerging markets, weak activity data in China continued, despite efforts to provide support. Overall, it was a torrid 12 months for financial markets, with most asset classes delivering negative full-year total returns when measured in US dollars.

A closer look at the economic data shows US growth momentum continued to moderate in December, although the labour market remains very strong. The US ISM Manufacturing Index fell to its lowest level since 2016 in the December print, at 54.1 (down from 59.3 the previous month – well below expectations). Durable goods orders, housing demand and price indicators have also weakened, and both tend to flag changes in underlying activity well. GDP for the fourth quarter of 2018 (Q418) is tracking 2.4% from 3.5% (on a quarter-on-quarter seasonally adjusted annualised (q/q saa) basis) in the third quarter. Most recently, a prolonged US government shutdown could add to softening sentiment as the political standoff in Washington persists.

The Federal Open Market Committee (FOMC) raised the Fed Funds rate by 25 basis points (bps) to a 2.25% - 2.5% range in December. Despite sharply weaker US markets and public criticism from President Donald Trump, Fed Chairman Jerome Powell maintained a relatively upbeat outlook for the US economy, but acknowledged growing downside risk to growth. Rates markets have since priced out further US policy rate tightening in 2019.

In South Africa, growth momentum remains subdued. GDP growth in Q3 was 2.2% q/q saa, and 1.1% y/y – marginally better than what was forecast, but still uninspiring. Activity data is also still a mixed bag: credit growth moderated in November to 5.6% y/y (from 5.8%); mining production surprised to the upside, but was only up 0.5% y/y, while manufacturing was up 1.1% y/y. The PMI was a little better at 49 (from 48.2) but remains in contractionary territory. Retail sales posted growth of 2.2% y/y in October. Taken together, GDP is likely to grow less than 1% in 2018.

Domestic inflation accelerated modestly to 5.2% y/y in November from 5.1% y/y in October. Food inflation moderated and remains low in absolute terms with all of the increase related to retail fuel prices. Both general goods and services price pressure is broadly contained, with core inflation at 4.4% y/y. A large retail fuel price reduction in December should see headline inflation slow towards 4.5% y/y and will lower the 2019 trajectory by about 20 bps.

Despite this, in a tied 3:3 vote, the South African Reserve Bank (SARB) MPC raised the repo rate 25bps to 6.75% in November, with the Governor casting the deciding vote. The MPC has reiterated its desire to see CPI and inflation expectations closer to the mid-point of the target band (4.5%), implying that despite prevailing low inflation and slow growth we can expect modest increases in interest rates in coming months.

At the end of November, shorter-dated fixed rate negotiable certificates of deposit (NCDs) traded at 8.45% (three-year) and 8.96% (five-year), slightly tighter over the month. The spreads of floating-rate NCDs have dulled in appeal over the last few quarters due to a compression in credit spreads. There has been a reduced need for funding from banks in South Africa, given the low-growth environment. Fixed-rate NCDs continue to hold appeal due to the inherent protection offered by their yields and relative to our expectations for a stable repo rate. However, credit spreads remain in expensive territory (less than 100 bps in the three-year area and 110 bps in the five-year area). The fund continues to hold decent exposure to these instruments (less floating than fixed), but we will remain cautious and selective when increasing exposure. NCDs have the added benefit of being liquid, thus aligning the liquidity of the fund with the needs of its investors.

The rand was down 3.4% over the month and 13.8% over the year, ending at 14.35 to the dollar. Sentiment towards South Africa continues to swing, with emerging market sentiment souring in sympathy with equity markets in general in December. The fund maintains its healthy exposure to offshore assets, and when valuations are stretched, it will hedge/unhedge portions of its exposure back into rands/dollars by selling/buying JSE-traded currency futures (US dollar, UK pound and euro). These instruments are used to adjust the fund's exposure synthetically, allowing it to maintain its core holdings in offshore assets. (It has the added benefit of enhancing the fund's yield when bringing offshore exposure back to rand.)

South African government bonds mostly reflect realistic expectations for the local economy, although have benefitted from a turn in global sentiment recently. South African bonds compare favourably to their emerging market peers, relative to their own history, and still offer a respectable cushion against further global policy normalisation. At current levels, the yields on offer in the local bond market are fairly valued relative to their underlying fundamentals and warrant a neutral to modestly positive allocation. The relative underperformance of ILBs versus nominal bonds in past quarters has resulted in real yields moving to levels that have not been seen in at least the last eight years. While nominal bonds continue to compare favorably to ILBs, the balance in the front end of the curve has shifted towards ILBs.

The local listed-property sector was down 1.3% in December, bringing its return for the rolling 12-month period to -25.0%. Listed property has been the largest drag on performance over 2018, primarily due to generalised equity weakness and idiosyncratic South African issues relating to the possible closure of Edcon, its impact on the broader property sector and lower real GDP growth. However, from an income perspective, distribution growth and expectations around future distribution growth remain sound. Despite the underperformance, from a valuation perspective, the sector is still very attractive. The changes in the property sector over the last decade (including the increased ability to hedge borrowings and large offshore exposures) should make listed property more resilient going forward. If one excludes the offshore exposure, the property sector's yield rises to approximately 10.7%, which compares very favourably to the benchmark bond. The fund maintains holdings in counters that offer strong distribution and income growth, with upside to their net asset value. In the event of a moderation in listed property valuations (which may be triggered by further risk asset or bond market weakness), we will look to increase the fund's exposure to this sector at more attractive levels.

The preference share index was up 1.7% in December, bringing its 12-month return to 15% (this is due to December 2017 - a very bad month for the index – now falling out of the period under review). Preference shares offer a steady dividend yield linked to the prime rate and, depending on the risk profile of the issuer, currently yield between 9% and 11% (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 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 9.3% 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, Mark le Roux and Mauro Longano
as at 31 December 2018

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 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. Asset allocation and top 10 holdings are 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 (gross of fees) 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 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 A NAV prices 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. 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 2017 (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

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.