CORONATION STRATEGIC INCOME FUND

Fund Information as at 31 January 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 listed property (typically max. 10%), preference shares (typically max. 10%), international assets (typically max. 10%) and hybrid instruments (typically max. 5%) 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

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 January 2018

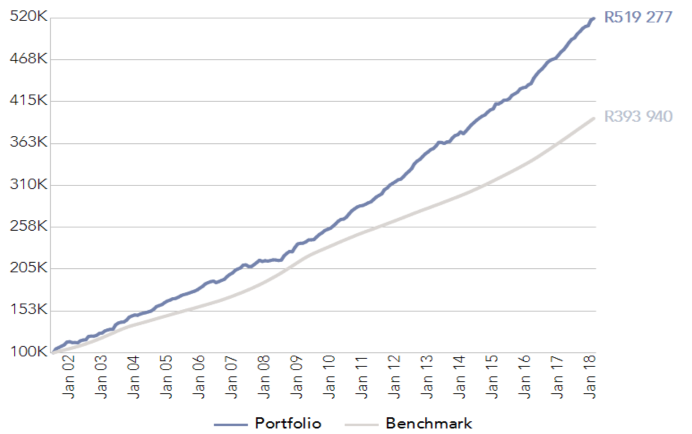
CORONATION
TRUST IS EARNED™

Fund category	South African - Multi Asset - Income
Launch date	02 July 2001
Fund size	R29.52 billion
NAV	1553.59 cents
Benchmark/Performance Fee Hurdle	110% of the STeFI 3-month Index
Portfolio manager/s	Nishan Maharaj and Mark le Roux

	1 Year	3 Year
Total Expense Ratio	0.99%	1.00%
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%	1.01%

PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Jan 2018
Domestic Assets	89.9%
Cash	31.2%
Bonds	51.9%
Listed Property	6.3%
Preference Shares	1.3%
Other (Currency Futures)	(0.8)%
International Assets	10.2%
Cash	0.5%
Bonds	7.8%
Property	1.9%

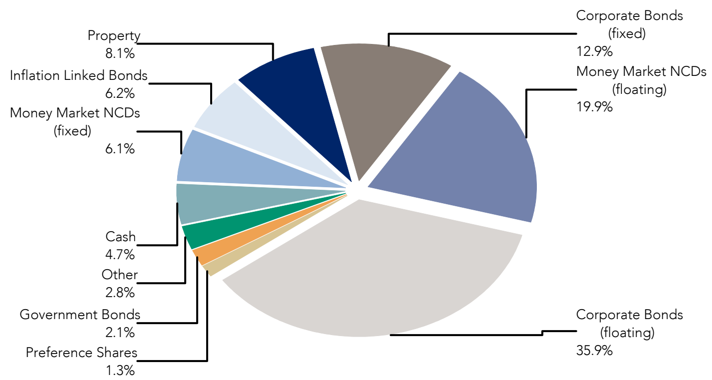
PERFORMANCE AND MODIFIED DURATION (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	419.3%	293.9%	125.3%
Since Launch (annualised)	10.4%	8.6%	1.8%
Latest 15 years (annualised)	9.8%	8.2%	1.6%
Latest 10 years (annualised)	9.2%	7.5%	1.7%
Latest 5 years (annualised)	7.9%	6.9%	1.1%
Latest 3 years (annualised)	8.0%	7.5%	0.5%
Latest 1 year	8.8%	7.8%	0.9%
Year to date	0.4%	0.6%	(0.2)%

	Fund
Modified Duration	1.3
Modified Duration (ex Inflation Linkers)	0.9
Yield	8.9%

PORTFOLIO COMPOSITION

As at 31 Jan 2018



RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	2.6%	0.7%
Sharpe Ratio	0.87	N/A
Maximum Gain	60.5%	N/A
Maximum Drawdown	(1.3)%	N/A
Positive Months	92.5%	N/A

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

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
29 Dec 2017	02 Jan 2018	27.54	0.72	26.82
29 Sep 2017	02 Oct 2017	27.43	0.86	26.57
30 Jun 2017	03 Jul 2017	27.61	0.72	26.89
31 Mar 2017	03 Apr 2017	27.45	1.24	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%
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: 2018/02/07

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.

The fund returned 0.39% in January, bringing its total return for the 12-month period to 8.77%. This is well ahead of the returns delivered by both cash (7.11%) and its benchmark (7.84%) over the same one-year period.
The All Bond Index rallied strongly in January, reflecting not only supportive global market sentiment, but also relief and optimism about the change in ruling ANC leadership in the wake of the December ANC elective conference. The rally was relatively broad-based, with longer-dated bonds of 12+ years performing best (2.1%), followed by the belly of the curve (7 to 12 years), which rose 1.5%. Short-dated bonds (1 to 3 years) were up 1.04%, and bonds maturing over 3 to 7 years rose 1.27%. Inflation-linkers, however, fell -1.38%, while cash returned 0.58%.

Economic resilience in developed economies, US tax reform and the government shutdown, ongoing low inflation and central bank uncertainty all featured in generally positive market news in January.

In the US, President Trump managed to pass wide-ranging tax reform in late December, and throughout January the equity markets rallied in response. It is impossible to make accurate estimates of the economic impact of the reform package, but the short-term impact on both investment and spending is deemed to be positive. Activity indicators remain generally upbeat, although Q4-17 GDP numbers disappointed the consensus. GDP growth was 2.6% q/q saa in Q4-17 (consensus 3.0%), from 3.2% in Q3-17. While this was disappointing, the details were not as soft – most concentrated in inventories and net trade, while final sales growth actually accelerated. Final demand was up 3.2% q/q saa in Q4-17, well ahead of the 2.2% q/q saa pace of the previous quarter. Elsewhere forward-looking ISM data remain strong at 59.1 in January. The January payrolls data were also ahead of expectations with payrolls running 200k m/m and the unemployment rate unchanged at 4.1%.

With respect to inflation, the January employment report showed strong gains in average hourly earnings which rose 0.3% on the month. Quarterly data however show core PCE at 1.9% with new numbers due this week. As expected the January FOMC, Chair Janet Yellen's last, left the Fed funds rate unchanged, but signalled with more confidence that inflation should continue to accelerate this year. Markets are pricing three 25bps hikes in the funds rate in calendar 2018, starting with 25bps in March.

Economic news from Europe has also been strong, with euro area flash GDP for Q4-17 up 0.6% q/q from 0.7% q/q in Q3-17. Not all of the member states have reported, and there is some chance of upward revisions when data from Germany and Italy are published in mid-February. High frequency data suggests activity momentum remains robust into 2018 – the January euro area economic sentiment indicator (from the European Commission) posted the second highest reading since the end of 2000, supported by buoyant sentiment in all sectors. The election calendar this year holds some risk with the Italian elections scheduled for 4 March, but significantly fewer election risks than 2017.

In South Africa, the much stronger currency should ensure inflation remains low through most of 2018, with December's CPI print showing inflation of 4.7% y/y expected to moderate in January and February. Lower food inflation, a 5.2% Eskom tariff adjustment and a stronger currency suggest consumer inflation will average 4.5-5% in 2018. The SARB left the repo rate on hold at 6.75% at the January MPC meeting, citing uncertainty related to the upcoming Budget and Moody's ratings review as their primary causes for caution. With inflation close to the mid-point of the target range, we think there is room for the MPC to cut rates by 25bps at the March meeting. At the end of January, shorter-dated negotiable certificates of deposit (NCDs) traded at 8.215% (three-year) and 8.825% (five-year) respectively, slightly higher than Decembers' close. NCD spreads relative to cash remain at quite tight levels due to a compression in credit spreads. NCDs continue to hold appeal due to the inherent protection offered by their yields and relative to our expectations for the repo rate, however the hunt for yield in the local market has started to push bank credit spreads into expensive territory (less than 100bps in the three-year area and 130bps in the five-year area). The fund continues to hold decent exposure to these instruments (both floating and 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.

Within emerging markets, the rise in global trade and commodity prices have provided a welcome boost to activity and profitability. Recent data show some moderation in China's growth momentum and weakness in the property market is partly offset by external trade and relatively resilient consumption. Property indicators show moderation in price growth across cities, which are now contracting in month-on-month terms. Associated construction activity has also slowed, and very robust export growth is now converging on more moderate global growth rates. Taken together, moderating property-related activity and somewhat slower export growth suggest GDP will slow to a range of 6.4% in 2018 from 6.8% in 2017.

The rand continued its advance in January, to end the month at 11.85, 4.5% stronger than its close in December. Early indications of a change in how the ruling party is run have reinforced some of this sentiment, and the new ANC president's interventions at Eskom have sent a strong signal of a new commitment to eradicating corruption and stabilising SOCs. Growth forecasts, on average, have been revised up from about 1% to about 1.5% in most cases, with depressed consumption and investment expectations easing at the margin. Forward-looking data show improving sentiment in the January PMI, and an actual seasonally adjusted reading of 49.9 from 44.9 in December. These factors have driven the outperformance of the rand within its emerging markets peer group. The fund benefited from holding put options on the dollar against the rand, which had the effect of synthetically reducing the funds' offshore exposure as the rand rallied against the dollar. The fund maintains a 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)

The fund has continuously used any spike in yields as an opportunity to add selective exposure to the longer area of the bond curve (12y+) at levels of around 10.25% to 10.50%, given its attractive return prospects relative to cash over the longer term. The SA economy could be at a key turning point if the newly elected ruling party leadership is able to push through much needed growth reforms, stabilise ailing parastatals and restore confidence in the SA economy. SA's growth could receive a short-term boost from inventory renewal as corporate SA starts to spend again after a yearlong hiatus. Inflation will remain well behaved with chances of further downside surprises adding to the case for a lower repo rate. SA government bonds should benefit from this renewed optimism and contained inflation. However, at current levels, they are only at fair value, and with exclusion from the Citi WGBI still a possibility, we choose to be neutral on SA government bonds, looking instead for more attractive levels to extend duration further.

The SA listed-property sector lost 9.9% in January, bringing its return for rolling 12 month period to 3.85%. Despite the recent fall, we remain confident that the sector offers selective value. The changes in the property sector over the last decade (including the increased ability to hedge borrowings and large offshore exposures) have rendered the yield gap between the property index and the current 10-year government bond a poor measure of value. On the surface, it appears quite stretched. However, if one excludes the offshore exposure, the property sector's yield rises to approximately 8.9%, 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 valuations. 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 down 0.66% in December, bringing its 12-month return to -4.4%. Preference shares offer a steady dividend yield, linked to the prime rate and, depending on the risk profile of the issuer, currently yield between 8.5% 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 (and boost possible buybacks). 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 stands at risk of 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 SA economy. However, we believe that the fund's current positioning correctly reflects appropriate levels of caution. The fund's yield of 8.89% 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 Mark le Roux
as at 31 January 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 is 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 Services Board 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 advisor, advice fees are contracted directly between you and the advisor. We will facilitate the collection of advice fees only upon receiving your instruction, up to a maximum of an initial fee of 3.00% and an ongoing fee of 1.00% per annum (where an initial advice fee of more than 1.50% is selected, the maximum annual advice fee that we will collect is 0.50%). Advice fees are usually collected through the redemption of units. You may cancel the instruction to facilitate the payment of advice fees at any time. Advisors will only share in Coronation fees subject to prior approval by and/or disclosure to the investor. A portion of Coronation's annual management fee may be paid to administration platforms such as Linked Investment Service Providers (LISPs) as a payment for administration and distribution services.

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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