CORONATION GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER FUND

Fund Information as at 31 May 2018

CORONATION
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WHAT IS THE FUND'S OBJECTIVE?

The fund aims to achieve a higher return than a US dollar term bank deposit. It is mainly focused on delivering short-term income.

WHAT DOES THE FUND INVEST IN?

The fund invests between 75% and 100% of its assets in a wide variety of fixed income assets. This may include bonds, money market instruments and other debt securities issued by international governments, banks and other companies or institutions.

Up to 25% of the fund may be invested in listed property, preference shares and other forms of hybrid debt or equity instruments.

While the fund may invest in instruments in any currency, its effective exposure to the US dollar will at least be 75% at all times.

The average duration in the fund will typically not exceed three years.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

2/10

Conservative

Maximum growth/ minimum income exposures

Growth Assets: 25%

Income Assets: 75%

The fund is tactically managed to secure an attractive income, 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, it is not guaranteed to always outperform cash over short periods of time, and may suffer capital losses primarily as a result of interest rate movements or negative credit events.

Capital growth, if any, will generally come from capital market changes such as falling interest rates or movements in foreign currencies.

This feeder fund aims to remain fully invested in units in the offshore domiciled Global Strategic USD Income Fund. The only other assets that will be held at feeder fund level are local and foreign cash holdings for liquidity purposes.

HOW LONG SHOULD INVESTORS REMAIN INVESTED?

The recommended investment term is 12-months and longer. Given its limited exposure to growth assets, the fund is not suited for long investment terms.

WHO SHOULD CONSIDER INVESTING IN THE FUND?

Conservative investors who are looking for an intelligent alternative to US dollar bank deposits.

WHAT COSTS CAN I EXPECT TO PAY?

An annual fee of 0.80% is payable.

Of the annual fee, 0.30% is collected at feeder fund level, while the balance of the fee is collected in the master fund. The component of the fund fee charged at feeder fund level is subject to VAT. Fund expenses that are incurred in the fund include administrative, trading, custody and audit charges. All performance information is disclosed after deducting all fees and other portfolio costs.

We do not charge any fees to access or withdraw from the fund.

More detail is available on www.coronation.com

WHO ARE THE FUND MANAGERS?

MARK LE ROUX
BCom

STEPHEN PEIRCE
BA (Economics), MA (Finance), UKSIP

NISHAN MAHARAJ
BSc (Hons), MBA

SEAMUS VASEY
BCom (Hons), MSc

GENERAL FUND INFORMATION

Launch Date	30 August 2013
Fund Class	A
Benchmark	110% of USD 3-month LIBOR
Fund Category	Global – Multi-asset – Income
Regulation 28	Does not comply
Investment Minimum	R5 000 or R500/m debit order
Bloomberg Code	CORGSIF
ISIN Code	ZAE000181012
JSE Code	CGSUI

CORONATION GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER FUND

CLASS A as at 31 May 2018

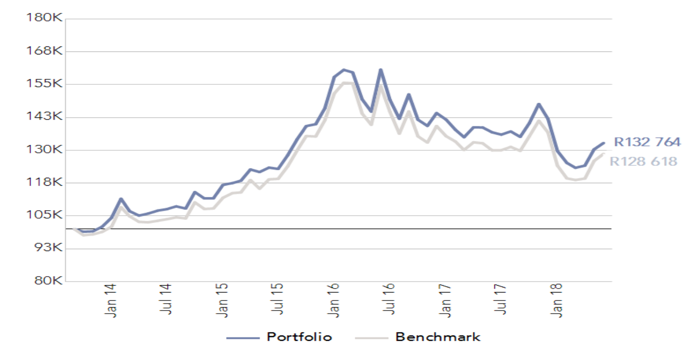
CORONATION
TRUST IS EARNED™

FundCategory	Global - Multi-Asset - Income
Launch date	30 August 2013
Fund size	R971.62 million
NAV	132.76 cents
Benchmark/Performance Fee Hurdle	110% of USD 3-month LIBOR
Portfolio manager/s	Mark le Roux, Stephen Peirce, Nishan Maharaj & Seamus Vasey

	1 Year	3 Year
Total Expense Ratio	1.12%	1.08%
Fund management fee	0.87%	0.88%
Fund expenses	0.20%	0.16%
VAT	0.05%	0.05%
Transaction costs (inc. VAT)	0.02%	0.02%
Total Investment Charge	1.14%	1.10%

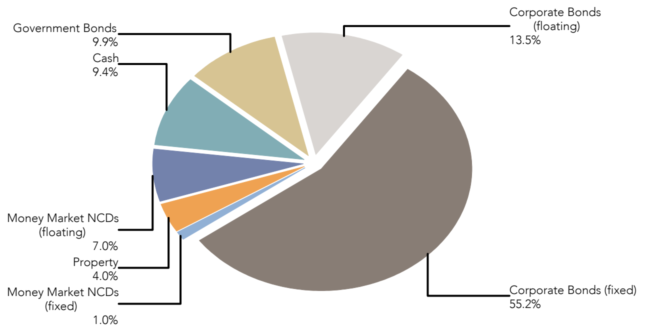
PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PORTFOLIO COMPOSITION

As at 31 May 2018



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES) (ZAR)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	32.8%	28.6%	4.1%
Since Launch (annualised)	6.1%	5.4%	0.7%
Latest 3 years (annualised)	2.5%	2.6%	(0.2)%
Latest 1 year	(3.0)%	(1.0)%	(1.9)%
Year to date	2.4%	3.6%	(1.3)%

	Fund
Modified Duration	1.0
Yield	3.1%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	13.4%	13.6%
Sharpe Ratio	0.08	0.03
Maximum Gain	30.7%	17.4%
Maximum Drawdown	(23.2)%	(23.8)%
Positive Months	56.1%	56.1%

	Fund	Date Range
Highest annual return	36.7%	Feb 2015 - Jan 2016
Lowest annual return	(15.4%)	Mar 2016 - Feb 2017

PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES) (USD)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	7.1%	4.0%	3.1%
Since Launch (annualised)	1.5%	0.8%	0.6%
Latest 1 year (annualised)	1.0%	1.9%	(0.9)%
Year to date	(0.5)%	1.0%	(1.5)%

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2018	(3.5)%	(1.5)%	0.7%	5.0%	1.9%								2.4%
Fund 2017	(2.8)%	(2.0)%	2.8%	0.0%	(1.3)%	(0.6)%	0.9%	(1.5)%	3.9%	5.2%	(3.8)%	(8.6)%	(8.5)%
Fund 2016	1.7%	(0.6)%	(6.4)%	(3.1)%	11.0%	(7.1)%	(4.9)%	6.5%	(6.4)%	(1.7)%	3.5%	(1.7)%	(10.3)%
Fund 2015	0.6%	0.8%	3.6%	(0.8)%	1.4%	(0.4)%	4.2%	4.7%	3.8%	0.5%	4.3%	8.2%	35.2%
Fund 2014	6.9%	(4.2)%	(1.6)%	0.7%	1.1%	0.5%	1.0%	(0.8)%	5.8%	(2.1)%	0.0%	4.6%	12.0%
Fund 2013									(1.0)%	0.2%	1.7%	3.4%	4.3%

CORONATION GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER FUND

Quarterly Portfolio Manager Commentary

Please note that the commentary is for the US dollar retail class of the fund. The feeder fund is 100% invested in the underlying US dollar fund. However, given small valuation, trading and translation differences for the two funds, investors should expect differences in returns in the short term. Over the long term, we aim to achieve the same outcome in US dollar terms for both funds.

After an extended period of above average returns form riskier assets, the past quarter provided the first insight into the challenges markets may face as central banks begin to scale back their asset purchase programmes. Corporate bonds performed well during January but credit spreads widened during February and March as equity markets softened and volatility rose. Corporate bonds underperformed government bonds for the first quarter since the end of 2015. Property prices once again struggled and were a drag on performance. The fund returned -0.6% in what proved to be a challenging quarter and 1.4% over the last 12 months, against a benchmark return (which was boosted by the rising level of US Libor) of 0.5% and 1.7% over the same period.

Global growth is currently in a sweet spot, benefiting from a cyclical upturn in all major regions and is running at its fastest rate since 2011. The question is where the risks of a slowdown may emanate from. Will it be the return of inflation that prompts a more rapid tightening of monetary policy or will it be geopolitical (such as the risk of a looming trade war)?

After the passage of the US tax bill, the country's trade deficit has now become the focus of the Trump administration. Renegotiating NAFTA may have been a first salvo but more recently the proposed imposition of tariffs on a range of imported products has riled allies, adversaries and investors. In addition there are signs in many regions of more protectionist attitudes to national industry champions. Taken together, these actions in an economy growing above potential are more likely to see price pressure increase. While tensions on the Korean peninsula appear to be easing, risks in several other geopolitical hotspots threaten market sentiment most likely via rising energy costs.

The upward movement in US Treasury yields during the first quarter reflected the impact of the passage of the US tax changes, with market participants upgrading economic forecasts for 2018 and 2019 and investors expressing concerns about the increasing size of fiscal deficits. US 10-year yields peaked close to 3.0% in February before retracing slightly to 2.7% at quarter-end having closed 2017 at 2.4%. The yield curve continued to flatten as shorter dated yields rose most, with breakevens only marginally wider. Two thirds of the sell-off has come via rising real rates, with five-year real yields rising from 0.27% to 0.46% over the quarter. The fund switched its US inflation-linked exposure into underlying fixed exposure during February as breakeven rates of inflation reached 2%.

The Federal Open Market Committee (FOMC), led by the new chair Jerome Powell, raised rates in March by a further 0.25% (the upper bound of the Fed Funds target range is now 1.75%) and amended its growth projections upwards to 2.7% in 2018 (from 2.5% in December and 2.1% pre-tax cuts) and 2.4% in 2019 (up from 2.1%). Its forecast for the unemployment rate fell slightly in 2018 and was lowered to 3.6% in 2019 and 2020. This would be consistent with the lowest unemployment rate since the late 1960s. Some investors have begun to draw parallels with policies of the Nixon administration and worry that the twin deficits will lead to a loss of confidence and a weaker dollar as was the case in the early 1970s. The FOMC also adopted a slightly more hawkish stance in its projection of interest rates with the dot plot rising form 2.688% in December to 2.875% in March and 2020 projections increasing from 3.062% to 3.375%

While official rates may have only increased by 0.25%, rates in the interbank market have been rising much faster. The three-month Libor spread has risen to 0.6% from 0.26% at the end of December. This is the result of several factors coming together. Part of it is driven by much higher Treasury bill issuance following the resolution of the debt ceiling (further exacerbated by the Fed shrinking its balance sheet). The other element has been more supply from banks and less demand from corporates as a result of changes in the US tax system. The result is that three-month Libor has risen 1% in the last six months and at 2.3% is now a credible alternative for investors who may not want exposure to longer dated Treasuries, which are more volatile and doesn't carry a much higher yield.

Credit spreads remain relatively tight but have begun to soften slightly under the weight of supply, a less supportive equity backdrop, and the rise in bank funding costs. The weakness was not limited to the US market and euro and sterling spreads also widened. It is noteworthy that since central banks asset purchases have begun to be reduced, markets have struggled to extend their gains. We continue to see the immediate risk to valuations as more dependent on changes in the flow of funds into the asset class (ETF and passive significant) rather than solvency related at this stage. The more fundamental credit challenge will come as central banks adjust policy rates higher, the world economy begins to slow and large amounts of refinancing come due (in 2019 and 2020). For this reason, we remain wary of valuations in longer maturities which are increasingly unappealing to offshore buyers due to rising US dollar hedging costs.

We believe the Fed's current expectation for the Feds Funds rate in 2020 is likely to prove overly aggressive and the fund has begun to increase its interest rate duration from very modest levels. This it did by lengthening from shorter dated Treasury bills (which have moved from very cheap to very expensive) into corporate bonds with maturities between one and two years, particularly financials where we believe there is now adequate breakeven protection. Despite a rise in US bank funding costs, there has been a narrowing of cross currency basis swaps for technical reasons which we would expect to begin to unwind over few months. In the meantime, this has meant non-US assets have become less compelling for the fund and very few new positons have been initiated. The fund has also continued to add to its exposure within convertible bonds (Redefine & Impala), some of which we believe are very appealing. The fund lengthened the maturity of a few of its small emerging market government positions as the credit curve steepened in late January.

In Europe, government bond markets performed well despite an inconclusive election result in Italy. On the economic front, momentum has slowed to its weakest level in more than a year as the composite Purchasing Managers' Index has fell abruptly in February and March. Indications still suggest annual growth in the region of 2.5% and some of the weakness may be in part be explained away by weather, supply chain bottlenecks and unusually high levels of absenteeism due to flu. The slowdown comes at a delicate moment for the European Central Bank as policymakers debate further tapering of their bond buying programme. Meanwhile inflationary pressures remain modest despite some evidence of a firming of some underlying elements such as within services.

In March, the UK reached an agreement that a 21-month transitional period would begin in March 2019, giving the impression that headway is being made in discussions with the European Union. However, some of this progress is viewed by Eurosceptic Members of Parliament as merely the result of a compromise of previous 'red lines'. While markets have become more optimistic that a manageable muddle-through result will ultimately be achieved, the chances of a 'no deal' (because of future unsurmountable hurdles) or the failure of a final deal to be ratified by MPs remains significant. In the meantime, inflation remains above target at a time when slack in the economy has reduced and wage pressures are picking up. A further rate increase is widely expected by the market in May with tightening thereafter likely to be heavily dependent on whether global growth (and in particular the EU) remains above trend.

Emerging markets hard currency debt performed well during the quarter despite a backdrop of weaker corporate bonds. The US dollar-denominated debt spreads ended the quarter only 10 basis points (bps) wider at 320 bps. Local currency denominated debt performed well, up 4.7% in US dollar terms for the quarter. The star performers were South Africa (up 8.6% in local currency terms and up 13.5 in US dollar terms) and Mexico (up 3.6% in local currency and up 11% in US dollar terms).

The fund's exposure to property increased marginally during the quarter to 4.2%. However, the rally of late 2017 fizzled out and property shares struggled particularly during February with the global index down 4% for the quarter. The retail sector remains depressed with bankruptcies such as Toys-R-Us, Claire's and Bon-Ton adding further pressure, although better consumer sentiment in the US offers a glimmer of hope. In the UK, Hammerson's bid for Intu was thrown into doubt by a counter bid for Hammerson from Klepierre, the European operator of shopping centers. Hammerson has rejected Klepierre's initial bid of 615p which was 40% above its previous closing price. Klepierre has subsequent to quarter-end upped its offer to 635p per share. After this too was rejected, it withdrew its offer and will no longer be pursuing a deal to acquire Hammerson. Hammerson produced an estimated Net Asset Value (NAV) of 790p for the first quarter, up 1.8% from the end of 2017 as part of the reasoning behind its rejection of Klepierre's initial bid. With its share now priced at a 40% discount to its valuations, investors are clearly increasingly sceptical of the sustainability of such valuations. German residential companies continued to report solid operational results and after a weak performance in January have recovered most of the ground they lost. The fund bought back into Growthpoint Australia at a yield above 7% and added Nepi Rockcastle to the portfolio after it fell very sharply during January and February. The share price is now more aligned with its NAV and growth prospects. With gearing in many property companies lower than in previous cycles and yields at a healthy margin above corporate bonds, there appears to be value in the sector, however, as recent times have demonstrated, hopes of capital growth may require a little more patience.

Within foreign exchange markets, the US dollar continued to struggle despite a continued widening in interest rate differentials. Within the G10, the yen was the best performer (up 6%) despite the Bank of Japan dismissing speculation it may be beginning to consider tapering its stimulus programme. The Norwegian krone also performed well after the central bank lowered its inflation target form 2.5% to 2%. With inflation now above the new target, the central bank suggested a rate hike was now likely as soon as September. Sterling also rallied against the US dollar (up 3.7%) just ahead of the euro (up 2.5%). The Canadian dollar was amongst the weakest currencies as expectations for rate rises moderated and concerns surrounding NAFTA weighed on the currency, despite Mexico been the best performing currency. The fund continues to hedge its non-US exposure back into US dollars.

The weakness of the first quarter is a useful reminder to market participants that valuations can move in more than one direction. With US government yields now materially higher in shorter maturities and credit spreads wider, the prospect for absolute returns has increased. As discussed, we remain cautious of some sectors but continue to employ an option protection strategy to mitigate any excessive downside that could result from a sizeable market sell-off.

Portfolio managers
Mark le Roux, Stephen Peirce, Nishan Maharaj and Seamus Vasey
as at 31 March 2018

IMPORTANT INFORMATION THAT SHOULD BE CONSIDERED BEFORE INVESTING IN THE CORONATION GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER FUND

Unit trusts should be considered a medium- to long-term investment. 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 100% 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 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. A feeder fund invests in a single fund of a collective investment scheme, which levies its own charges and could result in a higher fee structure for the feeder fund. Asset allocation is reflected on a look-through basis. 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 Investment Management International (Pty) Ltd (FSP45646), 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

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