CORONATION STRATEGIC INCOME FUND

Fund Information as at 31 May 2018

CORONATION
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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

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

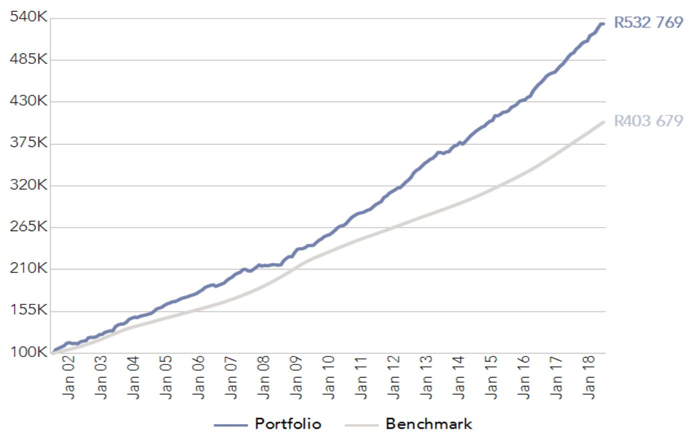
CLASS A as at 31 May 2018

Fund category	South African - Multi Asset - Income
Launch date	02 July 2001
Fund size	R30.73 billion
NAV	1566.21 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%	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)



PERFORMANCE AND MODIFIED DURATION (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	432.8%	303.7%	129.1%
Since Launch (annualised)	10.4%	8.6%	1.8%
Latest 15 years (annualised)	9.6%	8.1%	1.5%
Latest 10 years (annualised)	9.5%	7.4%	2.1%
Latest 5 years (annualised)	7.9%	7.0%	0.9%
Latest 3 years (annualised)	8.5%	7.6%	0.9%
Latest 1 year	8.0%	7.7%	0.3%
Year to date	3.0%	3.1%	(0.1)%

	Fund
Modified Duration	1.5
Modified Duration (ex Inflation Linkers)	1.1
Yield	9.1%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	2.6%	0.7%
Sharpe Ratio	0.85	N/A
Maximum Gain	60.5%	N/A
Maximum Drawdown	(1.3)%	N/A
Positive Months	92.6%	N/A

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

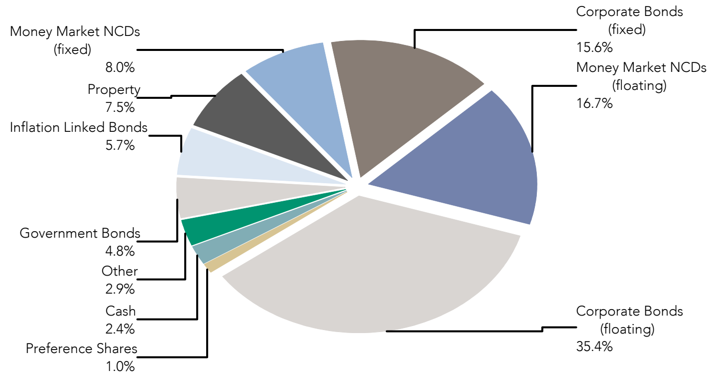
PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 May 2018
Domestic Assets	87.8%
Cash	30.5%
Bonds	54.3%
Listed Property	5.9%
Preference Shares	1.0%
Other (Currency Futures)	(3.9)%
International Assets	12.3%
Cash	0.4%
Bonds	10.2%
Property	1.7%

PORTFOLIO COMPOSITION

As at 31 May 2018



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
29 Mar 2018	03 Apr 2018	27.50	1.30	26.21
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

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%								3.0%
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: 2018/06/07

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 0.06% in May, bringing its total return to 3.00% for the year and 8.04% for the 12-month period. This is well ahead of the returns delivered by both cash (7.02%) and its benchmark (7.75%) over the same one-year period.

May continued late-April's bond market weakness, with emerging markets jittery as oil prices continued to rise and the USD strengthened. The aggregate index fell 1.95% during the month. The weakness was also relatively broad-based, with longer-dated bonds (12+ years) weakening -2.5%, followed by the belly of the curve (7 to 12 years), which was down 1.46%. Short-dated bonds (1 to 3 years) were flat. Inflation-linkers held up rather better yielding 0.12%, while cash returned 0.57%.

Despite a broad recovery in EM growth, escalating risk-off sentiment in May hurt EM assets broadly, and Argentina and Turkey in particular. In South Africa, economic data remained mixed to weaker, with disappointing credit growth in April at just 5.1% y/y (from 5.9%), despite the surge in consumer confidence in Q1-18. The May PMI slipped back from 50.9 in April to 49.8, and April's trade surplus was smaller than expected. Retail sales were also softer at 4.2% y/y from 4.3% y/y in February. Q1-18 GDP is expected to contract on a sequential basis.

Inflation accelerated in April with the inclusion of the VAT hike, higher retail fuel prices and other tax-related increases. Headline and core CPI were 4.5% y/y from 3.8% y/y and 4.1% y/y respectively. Against a muted growth environment, with inflation risk assessed to be modestly to the upside, the SARB's MPC voted unanimously to leave the repo rate unchanged at 6.5% in May.

At the end of May, shorter-dated negotiable certificates of deposit (NCDs) traded at 8.20% (three-year) and 8.81% (five-year) respectively, higher than April's closes. NCD levels 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, credit spreads remain in expensive territory (less than 100 bps in the three-year area and 130 bps 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.

US Treasury yields remained elevated for most of May, and the USD strengthened broadly. The move was accompanied by rising oil prices, higher volatility and risk-off sentiment that affected emerging market asset prices heavily. Data remains quite mixed, although there are tentative signs of activity picking up in some developed economies after a soft Q1-18. Geopolitical uncertainty remains elevated, although US relations with North Korea and China seem to have thawed at the margins. Nonetheless the risk of flare-ups remains high. European politics deteriorated meaningfully in May, highlighting the area's political and economic vulnerabilities.

US GDP was as weak as expected in Q1-18, at 2.2% annualised, with consumption surprisingly weak given labour market dynamics, offset by solid investment and inventory accumulation. Data published subsequently suggests consumer spending picked up in Q2-18, with strong retail sales in April up 4.6% y/y (nominal), supported by another strong April employment report, modest real wage gains and the impact of tax cuts filtering through.

With respect to inflation, core PCE inflation was revised slightly lower to 2.3% q/q saa, from 2.5% in the first print, largely reflecting weaker service inflation. That said, the upswing in consumer prices since late 2017 remains intact. Headline CPI was 2.4% y/y in April from 2.3% in March, while core inflation was 2.1% unchanged on the month before. Taken together, the recovery in growth and the steady rise in inflation point to further (measured) tightening from the Fed when it meets in June. Current expectations are for a 25bp rate hike at that meeting, bringing the Fed Funds rate to 1.75-2%.

European economic data was disappointing, and political events in Italy and Spain highlighted downside risk to the outlook. Euro area confidence surveys (flash PMIs, INSEE and Ifo) were all softer than expected in May, although it is worth noting that they all remain in 'expansionary' territory. If unchanged, current PMI levels are consistent with GDP of 0.5% q/q in Q2-18, a little firmer than the 0.4% q/q growth for Q1-18.

The ECB took note of the softer activity data at the April meeting. Minutes published in May suggest the governing council expect activity to improve, and for inflation to rise slowly to target in the medium term. Recent political events are unlikely to have an immediate impact on ECB policy, but softer data might see an extension of QE to the end of the year from the current end-September deadline.

The rand was down 1.9% in May, ending at 12.69 to the dollar. Concerns around a possible trade war between the major global economies and the impact of higher DM inflation on the current state of global monetary policy accommodation have all continued to sour risk sentiment and the appeal for EM and SA, resulting in EM FX selling off in tandem, which dragged the rand weaker. 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.)

The local economy remains on a solid footing. Inflation should remain well behaved and at worst keep the bias for policy rates to remain flat over the next 6-12m. Despite indications that growth might be low (or even negative) for Q1-18, low local inflation and positive consumer sentiment should underpin growth over the medium term, with upside risks from increased fixed investment by corporate SA. The pace of changes made by the new leadership has been impressive but what lies ahead is a much tougher battle. SA bonds have ridden the wave of optimism on the back of the new dawn but the risks from tightening of global monetary policy (higher policy rates and a reduction in quantitative easing) could have nasty consequences for SA bonds, which up until very recently had a very limited buffer to withstand these shocks. Over the last month, local bond yields have seen a significant widening, due in a large part to the repricing of EM risk premium, a higher expected path of global inflation and a faster normalisation in global monetary policy. This has put local bonds at levels that we deem to be fair relative to the underlying risks.

The SA listed-property sector was down 5.9% in May, bringing its return for the rolling 12-month period to –6.5%. 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. If one excludes the offshore exposure, the property sector's yield rises to approximately 9.6%, 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 2.2% in May, bringing its 12-month return to 0.2%. 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 (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 9.08% 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 May 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 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.