# CORONATION GLOBAL STRATEGIC USD INCOME [ZAR] FEEDER FUND

Fund Information as at 31 October 2018

CORONATION
TRUST IS EARNED™

## 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 October 2018

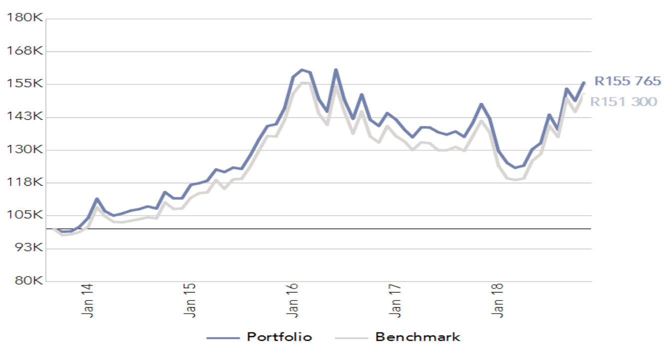
CORONATION
TRUST IS EARNED™

| | |
|---|---|
| FundCategory | Global - Multi-Asset - Income |
| Launch date | 30 August 2013 |
| Fund size | R 1.08 billion |
| NAV | 155.76 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% | 1.07% |
| Fund management fee | 0.87% | 0.85% |
| Fund expenses | 0.20% | 0.17% |
| VAT | 0.05% | 0.05% |
| Transaction costs (inc. VAT) | 0.02% | 0.02% |
| Total Investment Charge | 1.14% | 1.09% |

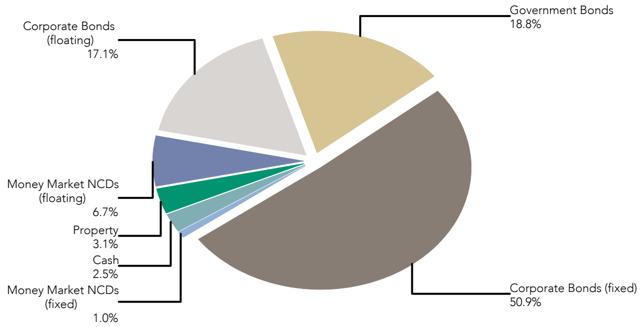
## PERFORMANCE AND RISK STATISTICS

### GROWTH OF A R100,000 INVESTMENT (AFTER FEES)




### PORTFOLIO COMPOSITION

As at 31 Oct 2018




### PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES) (ZAR)

| | Fund | Benchmark | Active Return |
|---|---|---|---|
| Since Launch (unannualised) | 55.8% | 51.3% | 4.5% |
| Since Launch (annualised) | 9.0% | 8.3% | 0.6% |
| Latest 5 years (annualised) | 9.5% | 9.1% | 0.4% |
| Latest 3 years (annualised) | 3.6% | 3.8% | (0.2)% |
| Latest 1 year | 5.5% | 7.1% | (1.6)% |
| Year to date | 20.1% | 21.9% | (1.8)% |

| | Fund |
|---|---|
| Modified Duration | 1.0 |
| Yield | 3.5% |

### RISK STATISTICS SINCE LAUNCH

| | Fund | Benchmark |
|---|---|---|
| Annualised Deviation | 14.4% | 14.5% |
| Sharpe Ratio | 0.07 | 0.03 |
| Maximum Gain | 30.7% | 17.4% |
| Maximum Drawdown | (23.2)% | (23.8)% |
| Positive Months | 56.5% | 56.5% |

| | 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) | 7.5% | 5.1% | 2.3% |
| Since Launch (annualised) | 1.4% | 1.0% | 0.4% |
| Latest 1 year (annualised) | 0.9% | 2.4% | (1.4)% |
| Year to date | (0.2)% | 2.1% | (2.3)% |

### 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% | 8.1% | (4.0)% | 11.3% | (3.0)% | 4.6% | | | 20.1% |
| 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% |

Issue date: 2018/11/12

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

CORONATION
TRUST IS EARNED™

*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.*

Government bond yields in core developed markets rose during the quarter, leading to negative returns for all but the shortest government bonds. Corporate bonds fared better outperforming government bonds, having underperformed in the previous six months. High-yield bonds continued to be among the best performing assets. The US Federal Reserve raised rates again in September against a backdrop of solid economic data. The US dollar continued to strengthen, albeit at a slower pace. The fund returned 0.5% for the quarter and 1.4% over the last 12 months, against a benchmark return of 0.7% and 2.3% over the same period.

The economic backdrop over the last three months has been dominated by trade tensions arising from the US decision to impose widespread tariffs on Chinese goods. Closer to home, the US reached a revised North American Free Trade Agreement (NAFTA) deal with Mexico and Canada. Within Europe, the new populist government of Italy has reignited debt sustainability concerns by adopting a new expansionary budget. The UK and Europe remain at a stalemate over Brexit negotiations with the odds of a hard Brexit increasing significantly. Within emerging markets, the sharp selloff in Argentina and Turkey caused investors to flee other emerging markets before some stability re-emerged in September.

The US Federal Reserve raised official rates by a further 25 bps (Fed Fund rate upper bound now 2.3%) and has signalled it intends to do the same at its December policy meeting. Despite removing the word 'accommodative' from its statement, the Federal Reserve's latest 'Dot Plot' continues to project rates rising well above those implied by the market beyond 2019, and with data continuing to be robust, the market remains vulnerable to a shift to higher rate expectations. Fed chairman Jay Powell, who has made numerous hawkish comments recently, referred to the US economy as 'remarkably positive'. The release of Fed members' "Dot Plot" projections for 2021 as unchanged over 2020 suggests the Fed doesn't see the economy rolling over in 2020 as many market participants anticipate.

The US curve bear flattened during the quarter as short yields rose faster than longer-dated issues. US five-year bond yields started the quarter at 2.7% and traded in a tight range for most of the period before moving higher in September, ending the quarter at 3.0%. Somewhat surprisingly, break-even rates of inflation remained anchored around the 2% level despite higher rates and rising oil prices. The upshot has been that real yields have risen by around 25 bps, with five-year real yields now at their highest levels since 2009 (0.9%), the fund added slightly to its break-even trades. Shorter-dated US government bonds also continued to cheapen versus swaps, with the 3-Month Libor spread falling from 40 bps at the end of June to 19 bps at the end of September. The combination of rising yields and a relative cheapening vs swaps makes US Treasury bills look relatively attractive and we see value in shorter-dated government bonds out to around 18 months in maturity. The fund has shifted its exposure to reflect this.

An increasing headwind for US Treasuries going forward is the rise in hedging costs for foreign investors. European and Japanese investors now receive 50 bps more for a German 10-year bond than a US 10-year bond after forex hedging costs. When coupled with a reduction of asset purchases by the European Central Bank, money should begin to flow out of the US and back to Europe, reversing the trend of recent years.

European markets remain dominated by politics. In Germany, Angela Merkel's coalition government faces internal strife or challenges from the far right AfD party, while in Italy, the new Eurosceptic populist coalition government is proposing a draft budget for 2019 that would increase the annual deficit threefold to 2.4% of GDP. With existing debt to GDP of 133% the proposals are likely to be deemed non-compliant with EU fiscal rules when the final proposals are submitted to the European Commission in mid-October. Not surprisingly, Italian bonds have underperformed significantly, with the 10-year spread to German bonds widening to 300 bps. There was little new news from the European Central Bank (ECB); as previously announced new asset purchases will be reduced to €15 billion a month from October before ceasing at the year-end, while reinvestments of maturating proceeds will continue for the immediate future.

In the UK, the clock is running down for Brexit negotiations, with the government's 'Chequers plan' meeting with stiff opposition from European negotiators and UK parliamentarians alike. With no other real initiatives on the table, the chances of a 'no deal' Brexit have risen significantly. Prime Minister Theresa May's bargaining position is further complicated by her coalition party, the Democratic Unionist Party's stance on the Irish border and the threat posed by the opposition party – Labour - which is focused on forcing a general election.

US corporate bonds outperformed government bonds during the quarter (by 1.7%), resulting in an excess return from corporate bonds which, year to date, are now broadly flat. European investment grade spreads remained soft with corporates broadly matching the returns from government bonds but still underperforming (by 0.8%) year to date. After several years of trading tighter, European and US spreads are now more closely aligned as European spreads begin to factor in reduced support from the European Central Bank's asset purchase programme. High-yield markets continued to outperform investment grade securities, with US markets particularly strong - up 2.4% in the third quarter versus 1.7% for the European high-yield markets.

Having pulled back from the high-yield market in the first quarter, the fund rebuilt positions in shorter-dated US denominated bonds (particularly financials) in the second quarter. These positions subsequently rallied strongly, particularly those maturing within the next two years. The fund has exited many of these positions, choosing to switch slightly longer given a steepening credit curve and rebuild its exposure to cheaper government bonds. For most of the last 18 months, European denominated corporate bonds have been expensive to comparative US bonds, though this has begun to change recently as European spreads have widened as the ECB scales back its asset purchase programme. Towards the end of September, the cross-currency basis also moved significantly (mostly for technical year-end reasons), allowing investors to buy European assets (and a few other currencies too) and swap them back into US dollars at attractive levels. The fund has therefore begun to buy more non-US denominated assets and lock in more attractive returns.

The FTSE EPRA/NAREIT Developed Total Return Index weakened in September as bond yields rose for the quarter; the index fell 0.2% in US dollars. The weakest region over the quarter was the UK - down around 5.2% in local currency and 6.4% in US dollars. The fund increased its exposure to European shopping centres via Unibail and Klépierre and reduced its exposure to US malls by reducing the exposure to Simon Property Group, while our holding in GGP was acquired by Brookfield. The fund sold its German residential exposure (Vonovia, LEG and Deutsche Wohnen) after a strong run; we believe rising bond yields may present a better buying opportunity. The fund remains active in property convertibles, switching its INTU 2018 exposure longer into 2022 and adding to our position in Redefine convertibles. Brexit concerns continue to overhang the UK market and while a 'no deal' outcome would prove very disruptive initially, valuations arguably now price in bad news. The fund's current exposure to property is around 3%.

Within foreign exchange markets, the US dollar continued to strengthen, and the Fed's broad trade-weighted index was up 1.3% during the quarter. The Mexican peso and Canadian dollar were two of the better performing currencies after the conclusion of NAFTA talks. Emerging market forex continued to struggle as negative sentiment spilled over from Argentina (down over 30%) and Turkey (down over 20%). Several emerging markets (such as India and Indonesia) have resorted to higher interest rates and import reduction measures to try to arrest the weakness in their currencies. China, whose economy continues to cool, faces a dilemma; a weaker currency helps exports at the margin but also raises the prospect of further capital flight and being labelled a currency manipulator by the US. For now, it appears China is once again selling dollars to stem the currency weakness (which may push up US Treasury yields) and is resorting to cutting bank reserve ratios to alleviate liquidity conditions domestically. While US growth appears to be outpacing other regions, the US dollar will remain well supported. But after a strong run from US assets, increasing hedging costs and heavy positioning, US external funding needs should begin to weigh on the US dollar and provide emerging markets with some relief.

The interest rate duration of the fund is around 1.1 years, marginally longer than at the end of June, as short rates have increased. We continue to view longer-dated government bonds as vulnerable to hawkish Fed rhetoric and reduced support from overseas buyers. Within credit markets, we see the best risk reward in intermediate maturities but remain cautious with non-US credit now an alternative source of value. The credit duration of the fund is around 1.6 years currently, similar to the level at the end of June. The redemption yield on the fund at the end of September was around 0.4% higher than in June at 3.8% versus 3 Month US Libor of 2.4%. Investors should be cognisant that central banks are still in the early stages of removing unparalleled financial support; we believe this necessitates a continued cautious stance.

Portfolio managers
Mark le Roux, Stephen Peirce, Nishan Maharaj and Seamus Vasey
as at 30 September 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 and top 10 holdings are 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

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.