CORONATION STRATEGIC INCOME FUND

Fund Information as at 31 December 2019

CORONATION
TRUST IS EARNED™

WHAT IS THE FUND'S OBJECTIVE?

Strategic Income aims to achieve a higher return than a traditional money market or pure income fund.

WHAT DOES THE FUND INVEST IN?

Strategic Income can invest in a wide variety of assets, such as cash, government and corporate bonds, inflation-linked bonds and listed property, both in South Africa and internationally.

As great care is taken to protect the fund against loss, Strategic Income does not invest in ordinary shares and its combined exposure to locally listed property (typically max. 10%), local preference shares (typically max. 10%), local hybrid instruments (typically max. 5%) and international assets (typically max. 10%) would generally not exceed 25% of the fund.

The fund has a flexible mandate with no prescribed maturity or duration limits for its investments. The fund is mandated to use derivative instruments for efficient portfolio management purposes.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

2/10
Conservative

Maximum growth/
minimum income exposures

Growth Assets: 25%
Income Assets: 75%

Strategic Income is tactically managed to secure an attractive return, while protecting capital.

Its investments are carefully researched by a large and experienced investment team and subjected to a strict risk management process. The fund is actively positioned to balance long-term strategic positions with shorter-term tactical opportunities to achieve the best possible income.

While the fund is managed in a conservative and defensive manner, there are no guarantees it will always outperform cash over short periods of time. Capital losses are possible, especially in the case of negative credit events affecting underlying holdings.

HOW LONG SHOULD INVESTORS REMAIN INVESTED?

The recommended investment term is 12-months and longer. The fund's exposure to growth assets like listed property and preference shares will cause price fluctuations from day to day, making it unsuitable as an alternative to a money market fund over very short investment horizons (12-months and shorter). Note that the fund is also less likely to outperform money market funds in a rising interest rate environment.

Given its limited exposure to growth assets, the fund is not suited for investment terms of longer than five years.

WHO SHOULD CONSIDER INVESTING IN THE FUND?

Investors who

- are looking for an intelligent alternative to cash or bank deposits over periods from 12 to 36 months;
- seek managed exposure to income generating investments;
- are believers in the benefits of active management within the fixed interest universe.

WHAT COSTS CAN I EXPECT TO PAY?

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

Fund expenses that are incurred in the fund include trading, custody and audit charges. All performance information is disclosed after deducting all fees and other fund costs.

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

More detail is available on www.coronation.com.

WHO ARE THE FUND MANAGERS?

NISHAN MAHARAJ
BSc (Hons), MBA

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

CORONATION
TRUST IS EARNED™

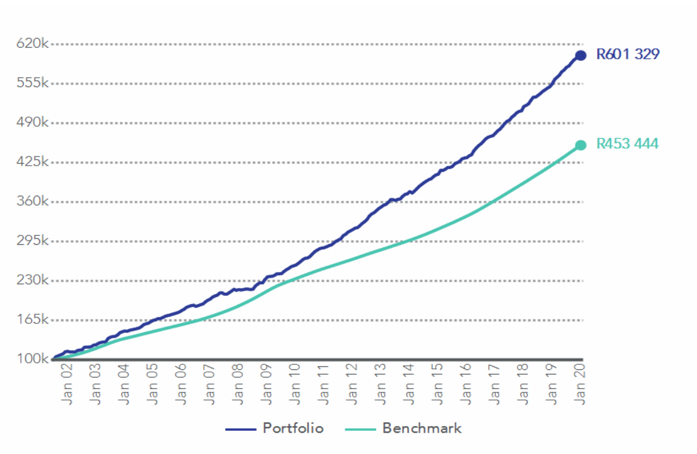
CLASS A as at 31 December 2019

Fund category	South African - Multi Asset - Income
Launch date	02 July 2001
Fund size	R47.14 billion
NAV	1577.48 cents
Benchmark/Performance Fee Hurdle	110% of the STeFI 3-month Index
Portfolio manager/s	Nishan Maharaj and Mauro Longano

	1 Year	3 Year
Total Expense Ratio	0.99%	0.99%
Fund management fee	0.85%	0.84%
Fund expenses	0.02%	0.02%
VAT	0.13%	0.12%
Transaction costs (inc. VAT)	0.01%	0.01%
Total Investment Charge	1.00%	1.00%

PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2019
Domestic Assets	90.5%
Cash	31.1%
Bonds	57.0%
Listed Property	3.9%
Preference Shares	0.2%
Other (Currency Futures)	(1.6)%
International Assets	9.5%
Cash	2.2%
Bonds	6.3%
Property	1.0%

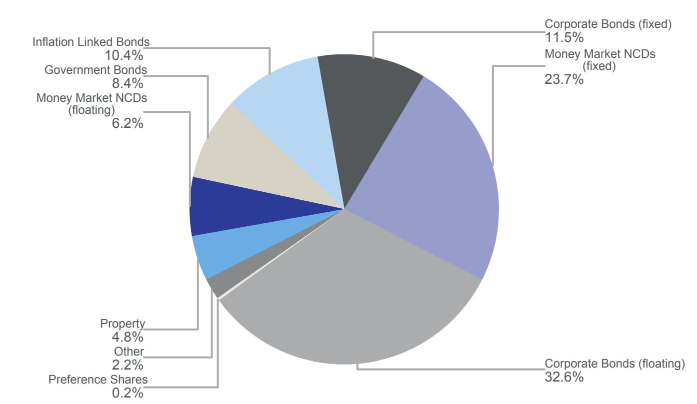
PERFORMANCE AND MODIFIED DURATION (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	501.3%	353.4%	147.9%
Since Launch (annualised)	10.2%	8.5%	1.7%
Latest 15 years (annualised)	9.0%	7.8%	1.2%
Latest 10 years (annualised)	8.9%	6.9%	2.1%
Latest 5 years (annualised)	8.2%	7.5%	0.7%
Latest 3 years (annualised)	8.3%	7.7%	0.6%
Latest 1 year	8.4%	7.6%	0.8%
Year to date	8.4%	7.6%	0.8%

	Fund
Modified Duration	1.4
Modified Duration (ex Inflation Linkers)	1.0
Yield	8.5%

PORTFOLIO COMPOSITION

As at 31 Dec 2019



RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	2.5%	0.7%
Sharpe Ratio	0.83	N/A
Maximum Gain	60.5%	N/A
Maximum Drawdown	(1.3)%	N/A
Positive Months	93.2%	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
31 Dec 2019	02 Jan 2020	30.60	0.14	30.46
30 Sep 2019	01 Oct 2019	30.22	0.52	29.70
28 Jun 2019	01 Jul 2019	29.49	0.36	29.13
29 Mar 2019	01 Apr 2019	28.95	0.84	28.11

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2019	1.3%	0.6%	0.6%	1.0%	0.5%	0.8%	0.4%	0.9%	0.8%	0.5%	0.3%	0.5%	**8.4%**
Fund 2018	0.4%	0.4%	1.1%	1.0%	0.1%	0.5%	0.6%	0.7%	0.5%	0.5%	0.4%	0.9%	**7.3%**
Fund 2017	0.9%	0.5%	0.9%	1.0%	0.8%	0.4%	1.0%	0.6%	0.8%	0.5%	0.2%	1.4%	**9.3%**

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

The fund returned 0.5% in December, bringing its total return to 8.4% for the 12-month period. This is ahead of the returns delivered by cash (6.9%) and its benchmark (7.6%) over the same one-year period.

Despite the amount of turbulence that was injected into financial markets with Brexit, the US/China trade war and Hong Kong protests, global equity markets closed calendar 2019 up more than 25% in US dollars (as measured by the MSCI World and All Country World indices). Global bond markets were not excluded, as most bond markets saw their yields compress over the course of the year, driven by a slowdown in global growth and a dovish twist by global central banks. Emerging market bonds provided a total return of 13.5% in US dollars as the hunt for yield intensified in a world where $11.2 trillion worth of debt now trades at a negative yield.

Despite the rally in global equity and bond markets, South African (SA) bond and equity markets underperformed their global peers. The local economy continued to slow due to concerns about deteriorating government finances and State-owned enterprises (SOEs), specifically Eskom, as bouts of load shedding continued to intensify. The All Bond Index (ALBI) produced a total return of 10.3% in rands (13.1% in US dollars), which was driven by a rally in the three- to 12-year area of the curve as expectations of further interest rate cuts continued given the low-growth and contained inflation environment. The slow pace of policy change and implementation, as well as tough decision making, will continue to weigh on the country into 2020. That said, the flower that blooms in adversity is the most rare and beautiful of all, so let's hope SA can learn and heal from its damaged past, rather than run from it.

In SA, the rand was up 2.5% over the year, ending calendar 2019 at US$1/R14.00. The rand's recovery in the final month of the year has put its performance in line with its emerging market peer group currencies. Poor local fundamentals, in the form of lower growth and continued signs of fiscal deterioration, imply that the rand will remain under pressure during the first quarter of the year as we head towards the February 2020 budget. The fund maintains its healthy exposure to offshore assets and, when valuations are stretched, will hedge/unhedge portions of its exposure back into rands/dollars by selling/buying JSE-traded currency futures (US dollars, UK pounds and euros). These instruments are used to adjust the fund's exposure synthetically, allowing it to maintain its core holdings in offshore assets. This has the added benefit of rand weakness, enhancing the fund's yield when repatriating exposure. Offshore exposure remains the best protection for rand investors in the event of a risk-driven sell-off.

Inflation is expected to average close 4.5% over the next two years, which is at the midpoint of the inflation targeting band, while growth is not expected to reach 1.5% until 2021 (SA's growth has averaged sub-1% since 2015), while global growth is expected to average just above 3%. The monetary policy committee (MPC) has reiterated that they want inflation closer to the midpoint, so that it can use monetary policy more effectively during times of crisis. SA's economy is struggling to grow and, although monetary policy is a blunt tool, it can be used to boost confidence and relieve some consumer pressure. Currently, real policy rates are above 2%, and if the repo rate does not move, the real policy rate will average 1.7% over the next two years. In previous cycles, when growth was this low, the real policy rate averaged close to zero. This suggests that there is room for the MPC to move policy rates at least 50 basis points (bps) lower over the next year.

At the end of December, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 7.67% (three year) and 8.09% (five year); quite a bit lower than the previous month and close to 80-90bps lower over the year. The spreads of floating-rate NCDs have dulled in appeal over the last few quarters due to a compression in credit spreads. There has been a reduced need for funding from banks in South Africa, given the low-growth environment. Fixed-rate NCDs continue to hold appeal due to the inherent protection offered by their yields and relative to our expectations for a stable repo rate. However, credit spreads remain in expensive territory (less than 100bps in the three-year area and 110bps in the five-year area). The fund continues to hold decent exposure to these instruments (less floating than fixed), but we will remain cautious and selective when increasing exposure. NCDs have the added benefit of being liquid, thus aligning the liquidity of the fund with the needs of its investors.

Fiscal policy in SA has been on a slippery slope since the global financial crisis, as the administration has struggled to narrow the fiscal deficit while government debt has ballooned. The reasons for this are well known, but, in recent years the slowdown in growth has decreased tax revenue, while expenditure has continued to increase to rescue ailing SOEs (Eskom, South African Airways, Denel). Eskom has been and remains the biggest risk to the local economy. Turnaround plans have been tabled and key personnel have been replaced, but due to the extent of a decade plus of maladministration and corruption, the operational turnaround has been slow. It is inevitable that financial support will be ongoing, and government will need to cut expenditure in other areas to keep the nation's ailing power supplier online. The February 2020 budget will be another watershed moment, as investors will again look to policymakers to make the hard, shorter-term decisions, such as freezing or cutting the government wage bill despite union objections.

Most rating agencies have given up hope when it comes to SA and moved us into sub-investment territory. Moody's is the only rating agency that has SA as investment grade, which keeps us in the World Government Bond Index (WGBI). However, given the deterioration seen over the last year, it is very likely that they will downgrade SA in 2020, which should see outflows from the local bond market of between R70bn and R120bn. This seems like the end of the world, but we should not forget that SA has a very deep and liquid bond market and a very large and sophisticated savings industry. Moreover, this deterioration and the risks around it have been well flagged over the last two to three years, so investor positioning has adjusted accordingly. SA also comprises less than 1% of the WGBI, so, at current valuations, investors might choose not to exit. In the worst case, government fails to demonstrate a better picture in the budget in February 2020 and SA exits the WGBI, but that does not mean the end of the world for SAGBs. It is more likely that we see some fiscal effort at the budget and with regards to SOEs. While this does not rule out an exit from the WGBI, it at least keeps policy trajectory headed in the right direction.

Inflation-linked bonds (ILBs), once again, underperformed nominal bonds in 2019, with a return of 2.6% for the year. Only shorter dated ILBs provided a positive return, albeit below cash. A five-year ILB trades at a real yield of 3.6%. Using expected inflation of 4.5%, if one holds this bond for the next three years the nominal return would be in excess of 8%, which compares very favourably to equivalent maturity nominal bonds. In addition, with expectations for the real policy rate to move closer to 1%, it makes the carry-on shorter dated ILBs even more attractive. At current levels, shorter dated ILBs do warrant a position in the portfolio.

The SA economy has been plagued with low growth, ballooning government finances and a volatile global geopolitical environment. Low growth and well contained inflation suggest the trajectory for SA policy rates to be lower over the next 12 months. In addition, SA bonds have continued to underperform relative to their global and emerging market counterparts, suggesting an increased risk premium given SA's precarious economic backdrop. At current levels, South African government bonds (SAGBs) seem adequately priced relative to underlying risks, which suggests a neutral allocation in portfolios.

The local listed property sector was down 1.6% over December 2019, bringing its return for the rolling 12-month period to -0.4%. Listed property has been the largest drag on the fund's performance, primarily due to idiosyncratic domestic issues relating to the pressure on tenant profitability as a result of lower GDP growth, which has had an unfavorable impact on the broader property sector. Despite the underperformance, from a valuation perspective, the sector remains very attractive. If one excludes offshore exposure, the property sector's yield is greater than 10%, 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 SA Preference Share Index was down 0.5% over December, bringing its 12-month return to 18.6%. Preference shares offer a steady dividend yield linked to the prime rate and, depending on the risk profile of the issuer, currently yield between 9% and 11% (subject to a 20% dividends tax, depending on the investor entity). The change in capital structure requirements mandated by Basel III will discourage banks from issuing preference shares. This will limit availability. In addition, most of the bank-related preference shares trade at a discount, which enhances their attractiveness for holders from a total return perspective and increases the likelihood of bank buybacks. Despite attractive valuations, this asset class will continue to dissipate, given the lack of new issuance and because it risks being classified as eligible loss-absorbing capital (only senior to equity). The fund maintains select exposure to certain high-quality corporate preference shares but will not actively look to increase its holdings.

We remain vigilant of risks emanating from the dislocations between stretched valuations and the underlying fundamentals of the local economy. However, we believe that the fund's current positioning correctly reflects appropriate levels of caution. The fund's yield of 8.48% 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 Mauro Longano
as at 31 December 2019

IMPORTANT INFORMATION THAT SHOULD BE CONSIDERED BEFORE INVESTING IN THE CORONATION STRATEGIC INCOME FUND

Unit trusts should be considered medium- to long-term investments. The value of units may go down as well as up, and therefore Coronation does not make any guarantees with respect to the protection of capital or returns. Past performance is not necessarily an indication of future performance. The fund is mandated to invest up to 10% of its portfolio into foreign securities and may as a result be exposed to macroeconomic, settlement, political, tax, reporting or illiquidity risk factors that may be different to similar investments in the South African markets. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. Asset allocation and top 10 holdings are reflected on a look-through basis. The fund is managed in line with Regulation 28 limits, although it is not required as per the fund's supplemental deed. The yield shown is an estimate (gross of fees) in part based on market assumptions and forecasts. The yield is calculated by taking the interest and income receivable of all the instruments in the fund divided by the net asset value, expressed as a nominal annual rate. It is provided to give an approximate indication of the achievable yield for an investment made at the reporting date. Actual experience may differ, based on changes in market values, interest rates and changes in costs actually experienced during the investment period.

Coronation Management Company (RF) (Pty) Ltd is a Collective Investment Schemes Manager approved by the Financial Sector Conduct Authority in terms of the Collective Investment Schemes Control Act. Portfolio managed by Coronation Asset Management (Pty) (FSP 548) Ltd, an authorised financial services provider. The Management Company reserves the right to close the fund to new investors if we deem it necessary to limit further inflows in order for it to be managed in accordance with its mandate. Unit trusts are allowed to engage in scrip lending and borrowing. Standard Chartered has been appointed as trustees for the fund (www.sc.com/za; 011-2176600). Coronation is a full member of the Association for Savings & Investment SA (ASISA).

HOW ARE UNITS PRICED AND AT WHICH PRICE WILL MY TRANSACTION BE EXECUTED?

Unit trusts are traded at ruling prices set on every trading day. Fund valuations take place at approximately 15h00 each business day, except at month end when the valuation is performed at approximately 17h00 (JSE market close) and forward pricing is used. Instructions must reach the Management Company before 14h00 (12h00 for the Money Market Fund) to ensure same day value. The payment of withdrawals may be delayed in extraordinary circumstances, when the manager with the consent of the fund trustees deem this to be in the interest of all fund investors. These circumstances may include periods when significant underlying markets suspend trading which will prevent accurate valuation of the instruments held in the fund. When the suspension of trading relates to only certain assets held by the fund, these assets may be side-pocketed. This process allows normal liquidity on the assets that can be valued, but will delay liquidity on the affected portion of the fund. If the fund is faced with excessive withdrawals, the affected withdrawals may be ring-fenced, which is the separation and delayed sale of the assets reflecting the interest of the liquidity seeking investors. It ensures that the sale of a large number of units will not force Coronation to sell the underlying investments in a manner that may have a negative impact on remaining investors of the fund.

HOW WAS THE PERFORMANCE INFORMATION INCLUDED IN THIS FACT SHEET CALCULATED?

Performance is calculated by Coronation as at the last day of the month for a lump sum investment using Class A NAV prices with income distributions reinvested. All underlying price and distribution data is sourced from Morningstar. Performance figures are quoted after the deduction of all costs (including manager fees and trading costs) incurred within the fund. Note that individual investor performance may differ as a result of the actual investment date, the date of reinvestment of distributions and dividend withholding tax, where applicable. Annualised performance figures represent the geometric average return earned by the fund over the given time period. Unannualised performance represents the total return earned by the fund over the given time period, expressed as a percentage.

WHAT IS THE TOTAL EXPENSE RATIO (TER) AND TRANSACTION COSTS (TC)?

TER is calculated as a percentage of the average net asset value of the portfolio incurred as charges, levies and fees in the management of the portfolio. The TER charged by any underlying fund held as part of a fund's portfolio is included in the fund expenses portion of the TER, but trading and implementation costs incurred in managing the fund are excluded. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TER's. The 1 year TER is for the 12 months to end of September 2019 (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.