CORONATION STRATEGIC INCOME FUND

Fund Information as at 28 February 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)

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 28 February 2019

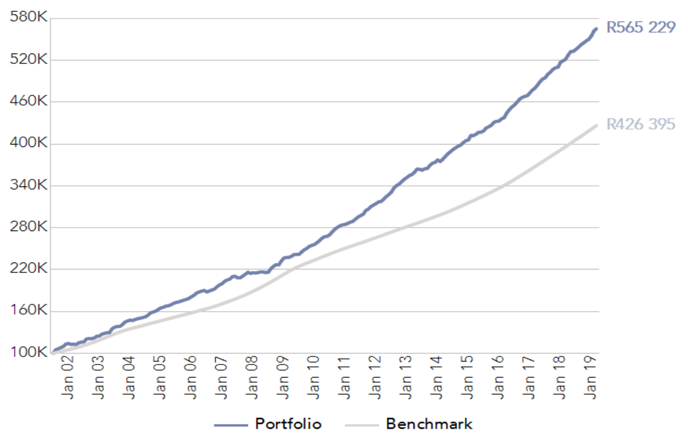
CORONATION
TRUST IS EARNED™

Fund category	South African - Multi Asset - Income
Launch date	02 July 2001
Fund size	R37.07 billion
NAV	1568.91 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	0.84%	0.84%
Fund expenses	0.03%	0.03%
VAT	0.12%	0.12%
Transaction costs (inc. VAT)	0.02%	0.01%
Total Investment Charge	1.01%	1.00%

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)	465.2%	326.4%	138.8%
Since Launch (annualised)	10.3%	8.6%	1.7%
Latest 15 years (annualised)	9.3%	7.9%	1.5%
Latest 10 years (annualised)	9.1%	7.0%	2.1%
Latest 5 years (annualised)	8.4%	7.3%	1.1%
Latest 3 years (annualised)	8.9%	7.8%	1.1%
Latest 1 year	8.4%	7.6%	0.8%
Year to date	1.9%	1.2%	0.7%

	Fund
Modified Duration	1.5
Modified Duration (ex Inflation Linkers)	1.1
Yield	8.9%

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	92.9%	N/A

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

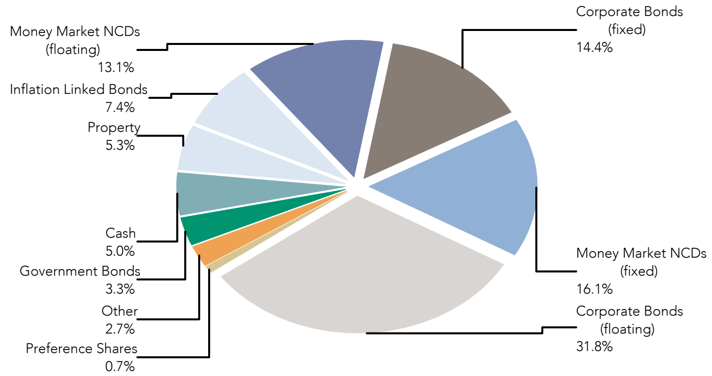
PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	28 Feb 2019
Domestic Assets	89.0%
Cash	37.0%
Bonds	49.6%
Listed Property	4.4%
Preference Shares	0.7%
Other (Currency Futures)	(2.8)%
International Assets	11.0%
Cash	0.6%
Bonds	9.5%
Property	0.9%

PORTFOLIO COMPOSITION

As at 28 Feb 2019



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31 Dec 2018	02 Jan 2019	31.03	1.12	29.91
28 Sep 2018	01 Oct 2018	26.66	0.76	25.90
29 Jun 2018	02 Jul 2018	31.70	1.03	30.67
29 Mar 2018	03 Apr 2018	27.50	1.30	26.21

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2019	1.3%	0.6%											1.9%
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 0.6% in February, 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.

February reversed some of January's strong performance, with a negative return from the South African bond market. The All Bond Index was down 0.4%, with the worst performance coming from long-dated bonds (12+ years), which fell 0.78%. This was followed by the belly of the curve (7-12 years), which was down 0.07%, while shorter-dated bonds (3-7yrs) returned a positive 0.44%. The short end (1-3yrs) fared similarly, up 0.41%, while inflation linkers fell 0.38% and cash returned 0.5% in February.

Global data remained mixed in February, but with continued evidence of a slowing in global growth momentum. The month's news was dominated by ongoing trade talks between the US and China and the UK's messy race to the Brexit deadline of March 29. In South Africa, the escalation of Eskom's load shedding and a weak budget dampened sentiment, while growth-related numbers remain weak.

In the US, Q4-18 gross domestic product (GDP) was 2.6% quarter-on-quarter (q/q) seasonally-adjusted annualised (saa), modestly ahead of the 2.3% consensus and well supported by both solid domestic consumption and business investment growth. For the year, GDP was 2.9%, from 2.2% in 2017. The US government shutdown will affect momentum and sentiment in Q1-19 and led to several data delays in February. Nonetheless, available high-frequency data have, on balance, been weaker: durable goods orders were softer, and housing starts fell sharply in February. Forward-looking data also softened, with the February Institute for Supply Management manufacturing index lower than expected at 54.2 from 56.6 in January.

Headline consumer prices were broadly in line with expectations. Headline inflation was 1.6% y/y in January from 1.9% y/y in December, core Consumer Price Index (CPI) inflation was unchanged at 2.2% y/y from 2.1%, while core personal consumption expenditure (PCE) inflation was unchanged at 1.9% y/y in December.

At the end of February, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 8.2% (three-year) and 8.7% (five-year); basically unchanged over the month. 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 100 bps in the three-year area and 110 bps 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.

China's high-frequency industrial activity, home sales, and Lunar New Year (LNY) travel and consumption data all point to a continued moderation in growth in January and February, but there are some signs that policy stimulus has picked up pace. January data showed a strong surge in credit lending, with credit growth of 10.4% y/y from 9.3% y/y in December off a high January 2018 base, and the The People's Bank of China's average loan rate fell almost 30 bps in February.

In South Africa, the tabling of the Budget for 2019/20 dominated headlines amid mounting concerns about Eskom. The Minister of Finance announced significant R23 billion per annum support for Eskom over the next three years, which will see the deficit widen to -4.7% of GDP in 2019/20 before a very modest consolidation to -4.3% by 2021/22. The wider deficit implies a higher debt trajectory, with gross debt-to-GDP now expected to rise to 58.9% over the same period. This weakened fiscal position and uncertainty about a plan to salvage Eskom has raised concerns about the outlook for South Africa's one remaining investment-grade rating from Moody's. The agency is expected to update the market on its views at the end of March.

The rand was down 5.9% over the month, ending at 14.09 to the dollar. Sentiment towards South Africa continues to swing with emerging market sentiment. 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)

Growth momentum remains subdued, with activity data a mixed bag as December power outages affected mining and manufacturing production. The former contracted -4.8% y/y from -5.8% in November, while manufacturing production was up just 0.1% y/y from 1.3% y/y the month before. Retail sales contracted 1.4% y/y in December after growth of 2.9% in November. One bright spot was an improvement in credit growth in January, up 6.5% y/y from 5.1% y/y in December.

Domestic inflation slowed sharply again in January to 4.0% y/y from 4.5% in December on much lower retail fuel prices and a downtick in food inflation. Core ticked lower to 4.4% y/y. With both inflation and growth subdued, we do not expect any change to policy rates at the March Monetary Policy Committee meeting.

Local government bonds mostly reflect realistic expectations for the local economy, although have benefitted from a turn in global sentiment recently. South African bonds compare favourably to their emerging market peers, relative to their own history, and still offer a respectable cushion against further global policy normalisation. At current levels, the yields on offer in the local bond market are fairly valued relative to their underlying fundamentals and warrant a neutral to modestly positive allocation. The relative underperformance of inflation-linked bonds (ILBs) versus nominal bonds in past quarters has resulted in real yields moving to levels that have not been seen in at least the last eight years. While nominal bonds continue to compare favourably to ILB's, the balance in the front end of the curve has shifted towards ILBs.

The local listed property sector was down 4.8% in February, bringing its return for the rolling 12-month period to -5.2%. Listed property has been the largest drag on the fund, primarily due to generalised equity weakness and idiosyncratic domestic issues relating to the possible closure of Edcon, its impact on the broader property sector and lower real GDP growth. However, from an income perspective, distribution growth and expectations around future distribution growth remain sound. Despite the underperformance, from a valuation perspective, the sector is still very attractive. The changes in the property sector over the last decade (including the increased ability to hedge borrowings and large offshore exposures) should make listed property more resilient going forward. If one excludes the offshore exposure, the property sector's yield rises to approximately 10.7%, 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 1.5% in February, bringing its 12-month return to 17.8%. 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 8.89% remains attractive relative to its duration risk. We continue to believe that this yield is an adequate proxy for expected fund performance over the next 12 months.

As is evident, we remain cautious in our management of the fund. We continue to invest only in assets and instruments that we believe have the correct risk and term premium to limit investor downside and enhance yield.

Portfolio managers
Nishan Maharaj and Mauro Longano
as at 28 February 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 2018 (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.