CORONATION STRATEGIC INCOME FUND

Fund Information as at 30 June 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.

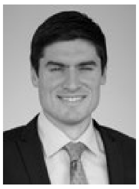
Fund expenses that are incurred in the fund include trading, custody and audit charges. All performance information is disclosed after deducting all fees and other fund costs.

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™

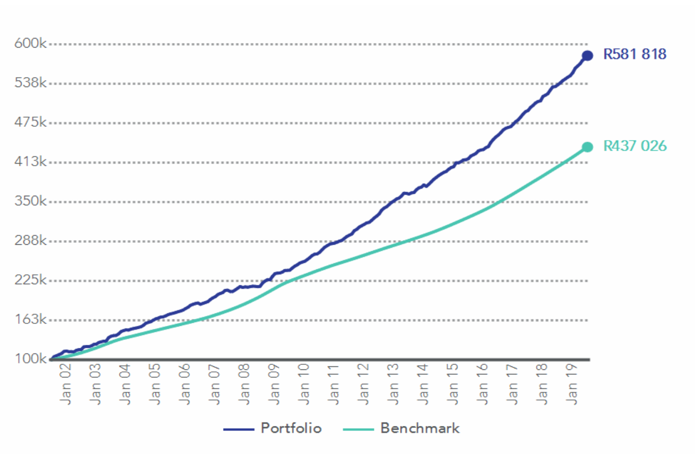
CLASS A as at 30 June 2019

Fund category	South African - Multi Asset - Income
Launch date	02 July 2001
Fund size	R40.25 billion
NAV	1585.39 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)



PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Jun 2019
Domestic Assets	90.3%
Cash	36.3%
Bonds	51.9%
Listed Property	4.0%
Preference Shares	0.5%
Other (Currency Futures)	(2.5)%
International Assets	9.7%
Cash	2.9%
Bonds	6.0%
Property	0.8%

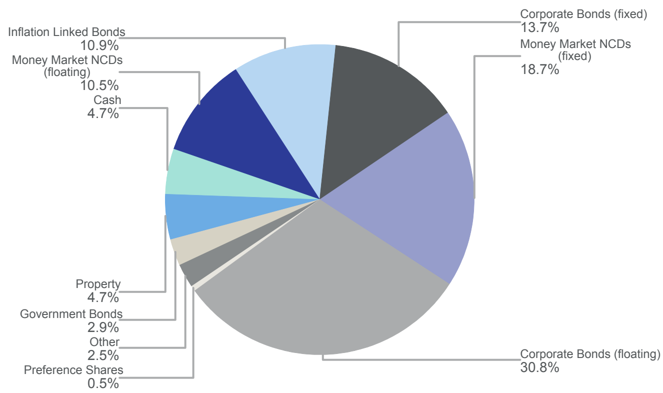
PERFORMANCE AND MODIFIED DURATION (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	481.8%	337.0%	144.8%
Since Launch (annualised)	10.3%	8.5%	1.7%
Latest 15 years (annualised)	9.3%	7.8%	1.5%
Latest 10 years (annualised)	9.2%	6.9%	2.3%
Latest 5 years (annualised)	8.2%	7.4%	0.8%
Latest 3 years (annualised)	8.5%	7.8%	0.7%
Latest 1 year	8.6%	7.6%	1.0%
Year to date	4.9%	3.7%	1.1%

	Fund
Modified Duration	1.4
Modified Duration (ex Inflation Linkers)	0.9
Yield	8.6%

PORTFOLIO COMPOSITION

As at 30 Jun 2019



RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	2.5%	0.7%
Sharpe Ratio	0.85	N/A
Maximum Gain	60.5%	N/A
Maximum Drawdown	(1.3)%	N/A
Positive Months	93.1%	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
28 Jun 2019	01 Jul 2019	29.49	0.36	29.13
29 Mar 2019	01 Apr 2019	28.95	0.84	28.11
31 Dec 2018	02 Jan 2019	31.03	1.12	29.91
28 Sep 2018	01 Oct 2018	26.66	0.76	25.90

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%							4.9%
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 0.8% in June, bringing its total return to 8.6% 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.

The All Bond Index (ALBI) was up 3.7% over the quarter, bringing its return to 11.5% over the last 12 months. This performance is well ahead of both cash (quarter-to-date [qtd]: 1.7%; rolling 12 months: 7.0%) and inflation-linked bonds (ILBs) (qtd: 2.9%; rolling 12 months: 4.0%). The outperformance of the ALBI was driven by the seven- to 12-year area where bonds rallied 30 basis points (bps) to 50bps versus bonds longer than 12 years, which only rallied 8bps to 10bps. Prospects of rate cuts in South Africa (SA) buoyed the seven to 12-year area, while further fiscal deterioration, due to lower growth and larger state-owned enterprise (SOE) bailouts, weighed heavily on longer-dated SA government bonds (SAGB). The strong performance of the ALBI over the last quarter, combined with the appreciation of the rand (2.3% versus the US dollar), put SAGB performance at 6.6% in US dollars, slightly above global emerging market (EM) bond performance of 5.7% in US dollars (JP Morgan GBI-EM Global Diversified Composite).

The rand was up 2.9% over the month, ending at R14.08 to the US dollar. Increasing concerns of lower growth due to the intensification of the US-China trade war, combined with benign inflation expectations, led to more dovishness from the US Federal Reserve (Fed) and European Central Bank, which fuelled the global bond market rally. By the end of June, the US 10-year bond had rallied to 2% (down from 2.7% at the beginning of 2019), while approximately US$13 trillion worth of global government bonds slipped into negative yielding territory. This spurred a rally in nearly all emerging markets' currencies and bonds, as the carry trade came back into vogue. 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).

On the local front, fortunately inflation should average 5% until the end of 2021 – due to the poor demand environment and subdued services prices. Unfortunately, growth will average less than 1.5% over the same time horizon, given the constraints on consumer spending and corporate investment. This benign growth and inflation environment should allow the SA Reserve Bank (SARB) to reduce interest rates by around 0.5% over the next six to nine months, which is supportive for local bonds. However, given the slow nominal growth environment (a combination of slow real GDP growth and low inflation) and the need for more extensive support for SOEs (e.g. Eskom), government finances are set to deteriorate even further. Just using current economic assumptions, the budget deficit is likely to be well below -5.5% over the next three years and debt-to-GDP above 60% by 2021. Frontloading further support for Eskom will worsen these numbers. The budget deficit and the debt-to-GDP ratio will move to approximately -6% and 60%, respectively, a lot earlier (this does not include a debt transfer from Eskom's balance sheet to that of the sovereign). The net effect will be a further deterioration in creditworthiness of SA, a downgrade to sub-investment grade by Moody's and an exit from the Citi World Government Bond Index (WGBI) by March 2020, if not sooner.

At the end of April, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 7.8% (three-year) and 8.3% (five-year); down significantly 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 SA, 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.

In last quarter, as evidenced by the performance of the various sectors of the ALBI, longer-end SAGBs (20- to-30-year area) materially underperformed 10-year SAGBs. In the last year, the spread that the 20-year SAGB trades above the 10-year SAGB has moved from 0.5% to more than 1% above. On the surface, this looks like an attractive entry point. If we conduct a total return analysis for a few of the most liquid government bonds over three years for a sell-off or rally of 100bps (1%) and for longer-dated bonds relative to the 10-year bond (how much those bonds can sell off before their total return equates to that of the 10-year bond), the results are supportive of longer SAGBs. In the event that bonds rally aggressively (100bps), they outperform, and if bonds sell off aggressively (100bps), one is no worse off than being invested in a 10-year SAGB. These bonds can sell off 30bps more (so steepen 30bps relative to 10-year SAGBs) before their performance equates to the 10-year SAGB. Based on these results, the case for allocating capital to the long end of the SAGB curve is very compelling.

ILBs have underperformed nominal bonds for over 10 years now, with the underperformance being most pronounced in the last two years (ALBI 10.8%; Composite Inflation-Linked Index [CILI] 2.8%). This underperformance has been driven by a rally in nominal bonds and a selloff in ILBs. Real yields have moved higher by approximately 150bps to 200bps over the last five years, depending on which area of the curve one is looking at. Most of the ILB yield curve trades close to, if not above, a real yield of 3%. This absolute level of real yield does seem attractive, relative to history. We conducted a total return analysis for nominal SAGBs and ILBs for parallel shifts in the yield curve (+50bps, +25bps and -25bps) and two inflation scenarios (average inflation over the next two years of 5% and 6.3%). Shorter-dated ILBs outperform their nominal counterparts under all scenarios. Shorter-dated ILBs therefore warrant a more favourable allocation in a portfolio relative to shorter-dated nominal bonds.

Cyclical economic factors are supportive of bond yields. Inflation will remain benign and growth subdued, which would allow an easing in policy rates. However, persistently low growth and the need for further support of SOEs will weigh heavily on government finances, resulting in wider budget deficits and a significant increase in the debt burden. SAGBs are most likely to exit the Citi WGBI in the next 12 months, as pressure mounts on Moody's to move SA into sub-investment territory. The global environment has turned more supportive for EM and SA; however, SAGBs have a very limited margin of safety against a turn in global sentiment or a worsening in local economic conditions. Therefore, it is prudent to maintain a neutral to slightly underweight allocation to SAGBs at current levels. Any exposure to SA bonds should be taken in longer-dated SAGBs and shorter-dated ILBs.

The local listed property sector was up 1.5% over the month, bringing its return for the rolling 12-month period to-5.1%. 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 about 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 2.0% over the month, bringing its 12-month return to 19.7%. 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 8.6% 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 30 June 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.