CORONATION STRATEGIC INCOME FUND

Fund Information as at 29 February 2020

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WHAT IS THE FUND'S OBJECTIVE?

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

WHAT DOES THE FUND INVEST IN?

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

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

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

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

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

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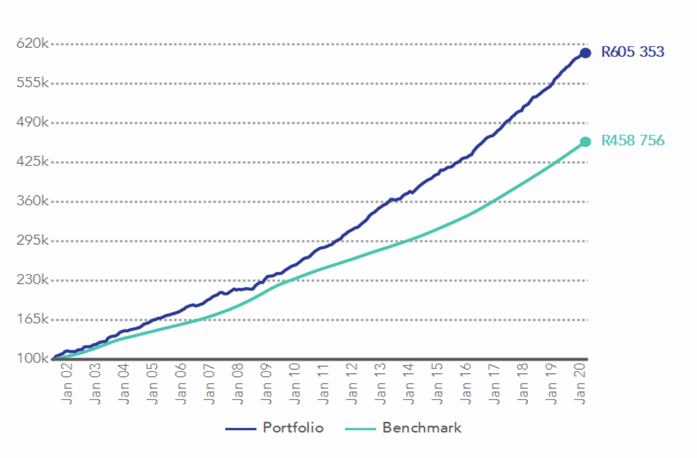
CLASS A as at 29 February 2020

Fund category	South African - Multi Asset - Income
Launch date	02 July 2001
Fund size	R48.25 billion
NAV	1557.27 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	29 Feb 2020
Domestic Assets	90.4%
Cash	29.9%
Bonds	58.7%
Listed Property	3.2%
Preference Shares	0.2%
Other (Currency Futures)	(1.6)%
International Assets	9.6%
Cash	2.2%
Bonds	6.6%
Property	0.8%

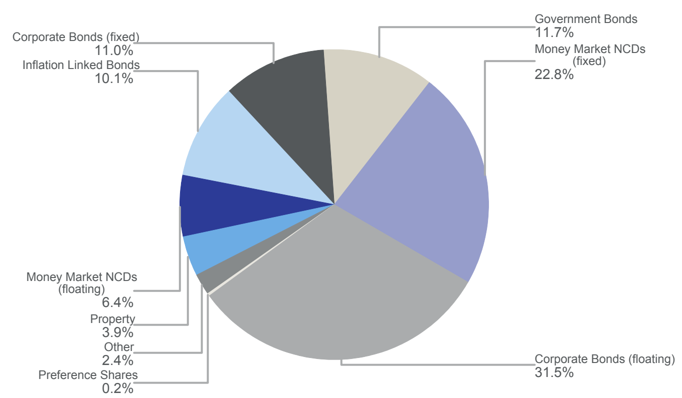
PERFORMANCE AND MODIFIED DURATION (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	505.4%	358.8%	146.6%
Since Launch (annualised)	10.1%	8.5%	1.6%
Latest 15 years (annualised)	8.9%	7.8%	1.1%
Latest 10 years (annualised)	8.8%	6.8%	1.9%
Latest 5 years (annualised)	8.0%	7.5%	0.5%
Latest 3 years (annualised)	8.0%	7.7%	0.4%
Latest 1 year	7.1%	7.6%	(0.5)%
Year to date	0.7%	1.2%	(0.5)%

	Fund
Modified Duration	1.6
Modified Duration (ex Inflation Linkers)	1.2
Yield	8.2%

PORTFOLIO COMPOSITION

As at 29 Feb 2020



RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	2.5%	0.7%
Sharpe Ratio	0.82	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

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 2020	0.8%	(0.1)%											**0.7%**
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%**

Issue date: 2020/03/10

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

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

The fund returned -0.1% in February, bringing its total return to 7.1% for the 12-month period. This is ahead of the returns delivered by cash (6.9%) over the same one-year period.

Local bond performance was broadly flat in February. The All Bond Index was down for the month, while the 12+ years area of the curve took the biggest knock, delivering -0.3%. Short- dated bonds (1-3 years) maintained a positive return of 0.79%. Mid-term bonds (3-7 years) delivered 0.2%, while the longer part of the curve (7-12 years) returned 0.1%. Inflation-linked bonds delivered 0.6%, while cash remained stable at 0.5%. There was surprise end-of-month volatility caused by a sell-off of emerging market assets.

Global market volatility intensified as the economic impact of the outbreak of COVID-19 escalated. The Federal Reserve Board (the Fed) surprised the market with an emergency March rate cut of 50 basis points (bps), moving the federal funds rate range from 1.5-1.75% to 1-1.25%. The rate cut is meant to cushion consumers and business from the economic risk of the virus outbreak. This saw the 10-year Treasury Note's yield dipping below 1%. The Fed will meet again later in the month and the futures market is pricing in a further 25bps cut. US headline inflation increased to 2.5% year-on year (y/y) in January from December's 2.3% y/y. The Personal Consumption Expenditure deflator also rose to 1.7% y/y in January from 1.5% y/y in December. The inflation uptick was driven by a rise in trade services costs, and food and wholesale prices, but elsewhere remains relatively benign.

In emerging markets, China's manufacturing PMI plunged to 35.7 points in February from a previous print of 50 points in January, a move indicating unprecedented weakness. The shutdown of factories at the beginning of the year heavily impacted the manufacturing sector's performance. Other indices marking production, employment and exports all fell to record levels. In early indications, the IMF decreased China's 2020 GDP growth to 5.6%, stating that the increased spread of COVID-19 will affect China's production capacity.

The rand was weaker as it lost 4% against the US dollar, ending February at US$1/R15.65. The combination of the risk-off environment caused by the coronavirus and poor local fundamentals weighed heavily on the local unit. In addition, newsflow during January, which included more load shedding, soured sentiment towards SA even further. 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.

The South African fourth-quarter GDP print was surprisingly weak at -1.4% quarter-on-quarter (q/q), seasonally adjusted average (saa) versus a revised third-quarter print of -0.8% q/q, saa. This was the second consecutive contraction, landing the economy into a technical recession. Overall GDP growth for 2019 was just 0.2% y/y versus 2018's 0.8% y/y. The biggest contributors to GDP in value added terms came from finance and business services and the mining sector. The detractors were trade, transport, storage, communication, manufacturing and agriculture. From the supply side, mining was up 1.8% q/q, saa with PGMs, iron ore and gold performing well. Agriculture disappointed with a contraction of 7.6% q/q, saa owing to a fall in production of field crops and horticultural products. On the expenditure side, government spending fell by 0.2% q/q, saa, reflecting lower employment. Household consumption produced a meagre growth of 0.4% q/q, saa. Gross fixed capital formation contracted by 10% q/q, saa, with machinery and equipment investment being the main detractors, reflecting the rollover of the last IPP projects. Net exports contributed positively to GDP, with exports benefiting from growth in precious metals and stones and a steep decline in imports. Headline inflation printed at 4.5% y/y in January versus 4% y/y in December, but core inflation came in at 3.7% y/y in January versus December's 3.8% y/y. January inflation numbers had a base line effect related to low fuel prices in January 2019, although housing and utility costs also increased. Food inflation remains benign, and low rental inflation should help keep CPI well within target in 2020. Transport costs are expected to increase in the first half of 2020, before stabilising by year end. Given the accommodative global environment and contained inflation, there is a room for further rate cuts, and we are expecting the South African Reserve Bank (SARB) to cut an additional 50bps in 2020.

At the end of February, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 7.30% (three year) and 7.77% (five year); slightly lower than the previous 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 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 February, Minister of Finance Tito Mboweni presented the budget for the 2020/21 fiscal year and it was not materially different from the October Medium-Term Budget Policy Statement (MTBPS). The budget showcased an average budget deficit of 6.2% of GDP over the next three years, increasing debt and debt service costs and escalating the debt-to-GDP ratio to 71.6% in 2022/23. No increases in the weekly issuance have been tabled, because National Treasury prefunded its 2020/21 obligations last year. An additional R17.2bn of funding was allocated to State-owned enterprises (SOEs), with South African Airways receiving R16.4bn of the allocation to repay guaranteed debt and to service debt. The Minister presented expenditure cuts through a R160bn reduction of the wage bill, reduced debt service costs by R31bn and a reduction of R101bn from other divisions. Gross tax revenue estimates were R138bn lower over the forecast period, in addition to the R251bn reduction announced in the MTBPS. The sharp decrease over the Medium-Term Expenditure Framework was driven by large reductions in personal income tax, company income tax and VAT receipts over three years. Overall, the budget painted a dire picture of the country's fiscal position and the implementation of the proposed expenditure cuts is key to shifting the country's challenging fiscal policy.

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 suggest a neutral allocation in portfolios.

The local listed-property sector was down 15.7% over February, bringing its return for the rolling 12-month period to –21.3%. 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 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 FTSE/JSE Preference Share Index was down 3.9% over January, bringing its 12-month return to 10.6%. 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 8.15% 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 29 February 2020

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.