CORONATION STRATEGIC INCOME FUND

Fund Information as at 30 June 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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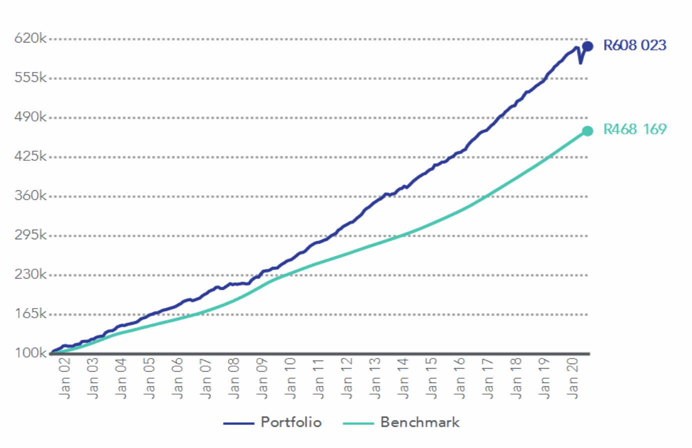
CLASS A as at 30 June 2020

Fund category	South African - Multi Asset - Income
Launch date	02 July 2001
Fund size	R47.07 billion
NAV	1534.21 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)



PERFORMANCE AND MODIFIED DURATION (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	508.0%	368.2%	139.9%
Since Launch (annualised)	10.0%	8.5%	1.5%
Latest 15 years (annualised)	8.7%	7.8%	1.0%
Latest 10 years (annualised)	8.4%	6.8%	1.6%
Latest 5 years (annualised)	7.8%	7.5%	0.2%
Latest 3 years (annualised)	7.1%	7.5%	(0.4)%
Latest 1 year	4.5%	7.1%	(2.6)%
Year to date	1.1%	3.2%	(2.1)%

	Fund
Modified Duration	1.5
Modified Duration (ex Inflation Linkers)	1.1
Yield	5.5%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	2.8%	0.7%
Sharpe Ratio	0.70	N/A
Maximum Gain	60.5%	N/A
Maximum Drawdown	(4.2)%	N/A
Positive Months	92.5%	N/A

	Fund	Date Range
Highest annual return	18.7%	Nov 2002 - Oct 2003
Lowest annual return	2.0%	Apr 2019 - Mar 2020

PORTFOLIO DETAIL

ASSET ALLOCATION BY INSTRUMENT TYPE

	Domestic Assets	International Assets
Cash and Money Market NCD's	23.1%	0.3%
Fixed Rate Bonds	19.1%	7.7%
Floating Rate Bonds	33.4%	2.2%
Inflation Linked Bonds	11.4%	0.6%
Listed Property	3.0%	0.4%
Preference Shares	0.2%	0.0%
Currency Futures	-1.5%	
Total	88.7%	11.3%

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	19.4%
State Owned Entities	1.5%
Banks and Insurers: NCDs and Deposits	23.2%
Banks: Senior Debt	16.7%
Banks: Subordinate Debt (<12m)	7.8%
Banks: Subordinate Debt (>12m)	10.7%
Insurers	3.8%
Other corporates	11.9%
REITS	3.4%
Preference Shares	0.2%
Coronation Global Strategic Income	0.5%
Coronation Global Bond Fund	0.9%

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic of South Africa Government Bonds	17.3%
Standard Bank of South Africa	15.9%
RMB Holdings	11.9%
Nedbank Ltd	11.0%
ABSA Bank Ltd	9.7%
Total	65.8%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Jun 2020	01 Jul 2020	19.10	0.06	19.04
31 Mar 2020	01 Apr 2020	28.55	0.55	28.00
31 Dec 2019	02 Jan 2020	30.60	0.14	30.46
30 Sep 2019	01 Oct 2019	30.22	0.52	29.70

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2020	0.8%	(0.1)%	(4.1)%	2.5%	1.5%	0.7%							**1.1%**
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: 2020/07/14

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

Please note that the commentary is for the retail class of the Fund

The Fund returned 0.7% in June, bringing its total return to 4.8% for quarter ended June 2020 and 4.5% over the 12-month period.

The local economic backdrop is concerning, but valuations were considerably cheaper by the end of first quarter. South Africa's (SA's) asset price recovery was buoyed by better risk sentiment in global markets. The All Bond Index (ALBI) was up 9.9% in the second quarter of 2020 (Q2-20), but its returns remain flat year to date (YTD) and a paltry 2.8% over the last 12 months. ALBI performance continues to be the driven by bonds in the zero- to seven-year area of the curve, as cash rates have pulled down aggressively on the 275 basis points (bps) of repo rate cuts carried out by the South African Reserve Bank (SARB). The 12-year-plus area of the curve has continued to underperform due to the deterioration in government finances and increased public-sector borrowing requirements. Inflation-linked bond (ILB) performance has been dismal, with the Composite Inflation Linked Index down 3% over the last 12 months, led again by ILBs in the seven-year-plus area. Despite poor index performance, ILBs out to seven years have still generated a return more than cash (2.9%) YTD.

We are already six months into 2020, a year that truly defies description, with a landscape that still presents as volatile and treacherous. At the beginning of the year, before Covid-19 turned into a fully-fledged pandemic, it was hard to find a pessimist in financial markets. The subsequent global lockdown sent both global and local economies into severe recession. Global monetary and fiscal policy then unleashed a flood of money into the economy, the likes of which has never been seen before, spurring expectations for a quick recovery. Asset prices started to recover in Q2-20, as economies across the globe started to open up from 'hard lockdowns.' However, concerns about a second wave of infections in developed markets and escalating infection rates in emerging markets (EMs) threaten to derail the recovery.

The rand was stronger, as it gained 2.9% inQ2-20 against the US dollar, ending June at US$1/R17.40. The easing of lockdown measures globally and initial indications that the expected contraction would not be as severe as initially thought, served to buoy risk sentiment and EM currencies. However, the local fundamental backdrop remains quite poor. 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.

EM debt crises have traditionally occurred in countries that predominantly have foreign- denominated debt; face an accelerated decline in their currency, resulting in an increased debt burden that they are unable to service; and an inflationary problem that re-enforces the downward spiral in their currency. South Africa (SA) is slightly different in that inflation will remain modest over the next two to three years. However, due to an incapacitated State, the poor condition of State-owned enterprises, a lack of targeted structural reform, and a dearth of political direction, government finances have deteriorated to such an extent that debt service costs are the fastest rising government expenditure item. In the fiscal year 2020/21, the fiscal deficit will register a whopping -15%, the debt-to-GDP ratio will exceed 80%, tax revenue will be down R300 billion, and nominal growth will be down 3.5%. Many countries around the world, both developed and EMs, will face a similar reality as the fiscal taps open to soften the fallout from the Covid-19 pandemic. Unfortunately, due to its poor starting position, glacial pace of reform implementation and reliance on foreign portfolio flows, SA is teetering on the edge of debt trap.

Local public sector borrowing requirements will push up to almost R800 billion this year, due to the drop off in tax revenue. Over the longer term, more steps are needed to ensure that the underlying growth engine is restarted through targeted, efficient and transparent investment into the local economy by government and the private sector. In the interim, SA will have to rely on funding from international finance institutions (IFIs), such as the International Monetary Fund and the World Bank, as well as capital markets to keep the ship afloat. IFI funding is relatively cheap and has little conditionality, but will still need to be repaid in foreign currency, while local capital market funding will have to be accompanied by a strong commitment to reel in wasteful expenditure, refocus current expenditure, and implement key sector reforms (e.g. energy, labour, transport), to increase investor confidence and trust. SA has a long history of not delivering on key policies and reforms, which has resulted in the current debt nexus and erosion of investor confidence in the country.

Consumer price inflation will average 2.7% over the next year and 3.5% over the next two years. Following the cumulative 275 basis points (bps) rate cuts since the beginning of this year, the SARB has room to reduce rates by another 50bps over the next three to six months and is likely to keep them at similar levels over the next 12 to 18 months to support the economic recovery.

At the end of June, shorter-dated fixed-rate negotiable certificates of deposit (NCDs) traded at 5.1% (three-year) and 6.3% (five-year), much lower than the previous month. Shorter-dated NCDs have pulled lower due to the significant interest rate cuts, recovery in bond yields and tightening of credit spreads. Short-dated fixed-rate NCDs continue to hold appeal due to the inherent protection offered by their yields and relative to our expectations for a lower repo rate. In addition, NCDs have the added benefit of being liquid, thus aligning the liquidity of the Fund with the needs of its investors. The Fund continues to hold decent exposure to these instruments (less floating than fixed), but we will remain cautious and selective when increasing exposure.

The fallout from the Covid-19 pandemic will linger for some time to come. In SA, the impact will be mostly felt in a much dimmer growth outlook, which will have a severe impact on government finances. The effects of the very hard lockdown and poor policy choices will weigh heavily on the economy going forward. As the economy was not well positioned going into the crisis, strong reforms are needed to return the country to a structurally better growth path, although lower interest rates will lend support to the economy through this difficult phase. South African Government Bonds (SAGBs) do embed a decent risk premium, although this premium has reduced slightly post the recovery in Q2-20. As mentioned, SA is on the brink of a debt trap and, although promises have been made to restore the country to a more sustainable debt trajectory, the implementation risks remain elevated. The valuation of SAGBs does provide some offset to this, implying that local bonds do warrant at least a neutral allocation in portfolios.

The local listed property sector was up 12.9% over June, bringing its return for the quarter to 18.7% and -40% over the rolling 12-month period. Listed property has been the largest drag on the Fund's performance. This has resulted in a general rise in balance sheet risk across the sector. The current crisis will reduce rental income, put pressure on asset values, increase the cost of borrowing for lower-quality businesses, and test inexperienced management teams. It is entirely possible that most of the companies will require additional capital and that dividends are suspended to preserve capital. One must be cautious not to take these at face value and understand how the key issues mentioned above affect that yield. We believe there are a few select large-cap counters that satisfy our stringent conditionality.

The FTSE/JSE Preference Share Index was up 2.8% over June, bringing its return over the quarter to 17.6% and -13.4% over the 12-month period. Preference shares offer a steady dividend yield linked to the prime rate and, depending on the risk profile of the issuer, currently yield between 8% and 10% (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 the 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 6.5% (gross of fees) 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 2020

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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. The asset allocation by instrument type are reflected on a look-through basis. The asset allocation by issuer type and top issuer exposures are not 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 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.