COMPELLING CASH ALTERNATIVES

COROLAB

Your guide to investment ideas

04/18

CORONATION

TRUST IS EARNED™

THE CORONATION CLIENT CHARTER

We strive to always put clients first

We have an unwavering commitment to the long term

We focus on producing top performance over all meaningful periods

We are uncompromising about ethics

OUR MANAGED INCOME SOLUTIONS

Investors who require an immediate income from their capital, or part of their capital, can invest in two managed income funds on offer from Coronation: the domestic flagship Coronation Strategic Income Fund and its dollar-denominated sibling, the Coronation Global Strategic USD Income Fund.

Both funds are actively managed across the range of yielding asset classes. They are suitable for investors who prefer not to take on much short-term risk, but require a better return than what is available from a term deposit at a bank (i.e. an investment in cash) over periods of 12 – 36 months. The funds are typically not suitable for longer investment periods. Their limited exposure to growth assets constrains their ability to provide adequate protection against the eroding effects of inflation on one's purchasing power.

IMPROVING THE OUTCOMES *for cash investors*

To have a reasonable chance of achieving a better return than a term deposit, investors need exposure to assets with a higher expected return than cash.

In Strategic Income and Global Strategic USD Income this is achieved by taking considered interest rate and credit risk where appropriate (as defined on page 3), and by increasing exposure to alternative sources of return (as defined on page 4), when the likelihood of outperformance is expected to be high. A higher return, however, comes with higher levels of risk. Risk is managed by following a robust and consistent investment process. We apply defensive asset allocation guidelines and conduct careful research to identify individual securities trading below our estimate of fair value. There are, however, no guarantees that the funds will always outperform cash or protect capital over short periods of time.

Our risk objectives in both funds are to protect capital in the reference currency over all periods of 6 months and longer, and to achieve variability of returns that are significantly less than those exhibited by the respective benchmark bond indices.

The possibility that the value of a bond (or other debt instrument) will decrease due to rising interest rates.

INTEREST RATE RISK

The possibility that the value of a bond (or other debt instrument) will decrease due to rising interest rates. Most bonds pay a fixed rate of interest over a defined period of time. This rate is set according to prevailing market interest rates at the time of issue. When market interest rates change, the bond's value in the secondary market will adjust to reflect this change.

When market interest rates fall, the relatively higher fixed rate of the bond already in issue will become desirable, meaning that its market price will increase. However, if rates rise, the now below-market fixed rate of the bond will be less attractive, causing the bond's value to fall. In this instance, the longer the period to maturity, the bigger the decline in the value of the bond in the secondary market.

The possibility that the investor might not be repaid by the issuer of the bond.

CREDIT RISK

The possibility that the investor might not be repaid by the issuer of the bond. Bonds, in their simplest form, can be thought of as a contract or set of promises between two parties – the bond issuer and the lender. The risk for the lender is that the borrower is unable to return the capital at the stipulated time, or is unable to make the agreed upon interest payments.

The credit risk associated with corporate bonds is higher than that of government bonds, as in a worst case scenario, government is assumed to be able to print money to make good on its obligations. Corporates therefore borrow at higher rates than governments. The difference between corporate and government rates is referred to as the 'credit spread'.

We are highly cognisant of credit risk and only invest in corporate bonds when we are of the view that the yield compensates for the risk, or when there is a general rise in credit spreads. All credit decisions are subject to oversight by Coronation's independently chaired Credit Committee.

PROTECTS AGAINST RISING INTEREST RATES

Floating-rate notes

Notes that offer a variable interest rate and reflect the changes in market interest rates. As the coupon payment on a floating-rate note depends on the level of money market interest rates and, on average, offers a yield pick-up of 1% over prevailing money market rates, it makes sense to favour these instruments when interest rates are expected to remain flat or start to rise.

Corporate credit

In an improving economy (which typically coincides with a rising interest rate environment) the spread on good quality corporate credit tends to narrow, creating the opportunity for capital gains.

PROTECTS AGAINST RISING INFLATION

Inflation-linked bonds

A bond with cash flows that are linked to the inflation rate. During inflation upswings, ILBs offer both inflation protection and an uplift in yield, making them a great diversifier in any multi-asset class portfolio. ILBs are also less correlated to other asset classes and therefore reduce overall volatility within a portfolio.

Listed property

Enables the investor to earn rental income from a diversified portfolio of retail, office, industrial and hospitality properties. Provides protection against rising inflation as rental income tends to increase in line with rising prices. Because price behaviour is more volatile than fixed interest investments, exposure to this asset class is limited to 10% of the overall portfolio for both Strategic Income and Global Strategic USD Income.

OFFERS DIVERSIFICATION

Preference shares

Hybrid instruments that pay a regular income in the form of dividends and typically expressed as a percentage of the prime rate. Because price behaviour is more volatile than fixed interest investments, exposure to this asset class is limited to 10% of the overall Strategic Income portfolio.

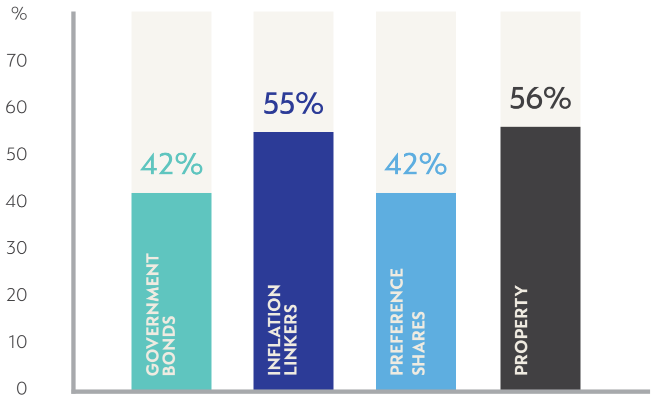
Convertible bonds

Convertible bonds pay a lower initial coupon than traditional corporate credit. They can be exchanged at the option of the holder for a specific number of shares at some point in the future. This allows investors to share in the upside from rising equity prices, while benefiting from a fixed coupon should the share fail to reach its conversion price.

As is clear from the explanations on pages 3 and 4, one is not always rewarded for the additional risk taken or for diversifying into other asset classes. A positive or negative contribution from these asset classes will depend on the prevailing market environment. Figure 1 below illustrates how often some of the asset classes with a higher expected return have outperformed cash +2% (our internal target for Strategic Income) historically. Our view of changing market conditions, and how we respond in the positioning of our managed income funds, is therefore critical to successfully outperforming over time.

Figure 1

PERCENTAGE OF MONTHS ASSET CLASS EXCEEDS CASH BY 2% OR MORE



Source: Coronation Fund Managers as at 31 March 2018

HOW WE VIEW *domestic market conditions*

Recent political changes have the potential to positively influence policy implementation and put the local economy on a path to rehabilitation. To achieve a more sustainable higher growth trajectory, the government needs to stabilise parastatals, pursue growth initiatives in earnest, and restore confidence in the country's institutions. In the short term, growth could receive a boost from consumer spending and inventory renewal as corporate South Africa starts to spend again after a multi-year hiatus.

Inflation should average close to 4.5% over the next two years. Combined with the still low absolute growth level, the South African Reserve Bank has room to provide a bit more monetary policy support in the very near term. We expect interest rates to be lowered by another 25 basis points over the next 6 months.

Local government bonds should benefit from this renewed optimism and contained inflation. However, at current levels, these assets price in a great deal of good news and are at best fair to slightly expensive, keeping us more neutral in our allocation to South African government bonds. Instead, we will look to enter overweight positions at more attractive levels.

HOW WE VIEW *global market conditions*

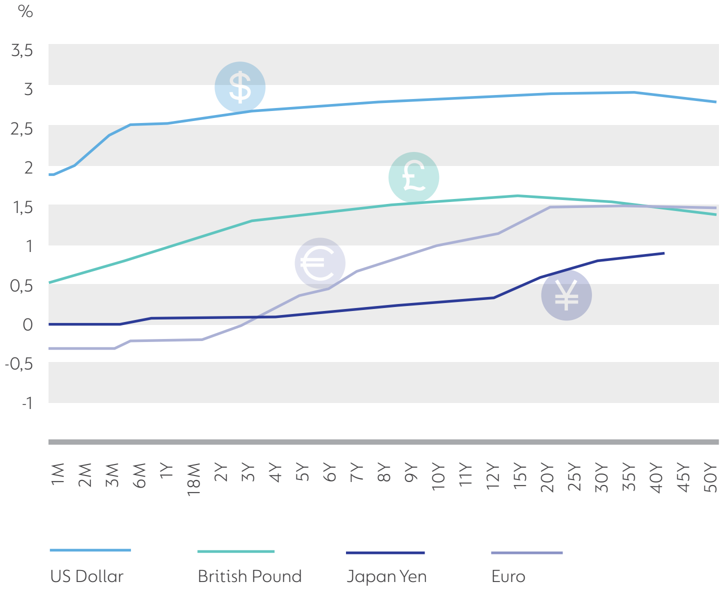
Global growth is currently in a sweet spot. Benefiting from a cyclical upturn in all major regions, it is running at its fastest rate since 2011. The question is: From where could the risk of a slowdown emanate? Could it stem from geopolitical risk, such as a looming trade war, or from the return of inflation, prompting a more rapid tightening of monetary policy?

The package of tax cuts, signed into law by US president Donald Trump, saw the Federal Reserve unveil a stronger growth forecast, lower unemployment during 2018 and 2019 and a more hawkish rate outlook at its most recent Federal Open Market Committee meeting. Having raised the Federal Funds rate on several occasions during the last year, the upper band of the range now sits at 1.75% (with the median projection of 2.125% at end-2018, 2.875% at end-2019 and 3.375% at end-2020). We don't believe the eventual path will be quite as aggressive. Bond yields have begun to take notice, with short dated yields having risen 1% in the last six months. The US typically leads policy cycles, and the European Central Bank will likely follow the US by ending its asset purchase programme later this year. The combined decrease in asset purchases from central banks globally will be close to a trillion dollars over the next year. It is worth noting that since the start of the reduction in central bank asset purchases, markets have struggled to extend their gains and a rise in volatility should come as no surprise.

Credit spreads remain relatively tight but have begun to soften slightly under the weight of supply and a less supportive equity backdrop. More recently, US dollar liquidity has tightened as a result of changes to the US tax code and large amounts of pent up issuance from the US Treasury (following the resolution of the debt ceiling debate). This has led to a widening in US funding spreads, resulting in corporate bonds having underperformed government bonds in the first quarter of 2018 - the first time that this has happened since Q3 of 2015. We continue to see the risk to valuations linked more to changes in flows into the asset class as opposed to being solvency related.

Figure 2

LONGER-DATED INTEREST RATE EXPECTATIONS (SWAPS CURVE)



Source: Bloomberg

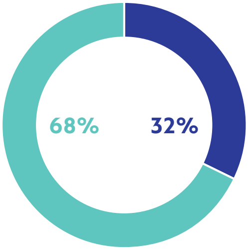
PORTFOLIO POSITIONING *in the current environment*

Both Strategic Income and Global Strategic USD Income have benefited from exposure to assets with a higher expected return than cash. In the case of Strategic Income, over its almost 17-year track record, the fund has delivered an annualised return of 10.4% (which is roughly 2.6% p.a. ahead of cash after fees). In turn, Global Strategic USD Income has delivered an annualised US dollar return of 2.5% (1.9% p.a. ahead of cash after fees) since its inception more than six years ago. We continue to maintain a decent allocation to assets that are not influenced by short-term volatility in both Strategic Income and Global Strategic USD Income (see Figure 3). In the case of Strategic Income, we remain vigilant of risks emanating from the dislocations between stretched valuations and the underlying fundamentals of the SA economy. However, we believe that the fund's current positioning correctly reflects appropriate levels of caution. The fund's yield of 8.8% continues to be 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.

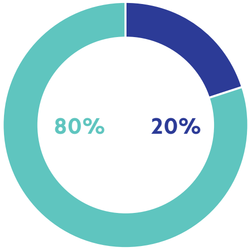
In the case of Global Strategic USD Income, the fund has begun to increase its duration in recent months as US yields have risen sharply, especially in shorter maturities. We anticipate several more US rate hikes in 2018 and 2019, but believe it is unlikely for the Fed Funds rate to reach the level implied by the Federal Reserve's forward guidance. Our exposure to corporate bonds is predominately short dated as the credit curve is now quite flat at the short end. We believe that property stocks offer reasonable value, but they remain sensitive to higher bond yields and our fund positioning reflects this. The negative sentiment within the property sector is at times difficult to reconcile with the outlook for growth ascribed to the wider market.

Figure 3

MAINTAINING A CONSERVATIVE POSITIONING IN THE CURRENT ENVIRONMENT



STRATEGIC INCOME



GLOBAL STRATEGIC USD INCOME

Strategic Income

Less volatile assets in short term	**68%**
Money Market NCDs (Fixed Rate)	7%
Money Market NCDs (Floating Rate)	18%
Corporate Bonds (Floating Rate)	39%
SA Cash	4%

More volatile assets in short term	**32%**
Corporate Bonds (Fixed Rate)	10%
ILBs	5%
SA Property	6%
Preference Shares	1%
Offshore	6%
Money Market NCDs (Fixed Rate, >2 yrs)	4%

Global Strategic USD Income

Less volatile assets in short term	**80%**
Corporate Bonds (Fixed Rate)	30%
Corporate Bonds (Floating Rate)	14%
Government Bonds (DM*)	31%
Money Market NCDs (Floating Rate)	4%
Inflation-Linked Bonds	<1%
Cash	<1%

More volatile assets in short term	**20%**
Corporate Bonds (Fixed Rate)	4%
Corporate Bonds (Floating Rate)	<1%
Government Bonds (EM*)	<1%
Corporate Bonds (EM)	3%
Property	4%
Convertible Bonds	7%

** DM = Developed Markets*
EM = Emerging Markets

OUR FIXED INTEREST *fund range*

Coronation offers a range of funds that cater for the majority of investors who are investing for immediate income and want to preserve capital. These funds share the common Coronation DNA of a disciplined, long-term focused and valuation-based investment philosophy. Details of the funds are included in the following table.

We also offer specialist bond (Coronation Bond) and listed property (Coronation Property Equity) funds. In addition, we offer a rand-denominated version of the Coronation Global Strategic USD Income Fund to our international offering for investors who wish to access this specialised portfolio without using their foreign investment allowances.

The funds reflected in the table meet the needs of investors who are looking to invest for the short term, and to whom capital preservation is of primary importance. However, those investors who require an income to cover their everyday living expenses over an extended period of time, and need their capital to grow to protect their purchasing power, should rather consider investing in one of our income and growth funds, Coronation Capital Plus or the more conservative Balanced Defensive Fund.

For full details on fund fees, please visit the Funds & Products section of www.coronation.com or contact one of our Client Service consultants on 0800 22 11 77.

FUND NAME	MONEY MARKET	JIBAR PLUS	STRATEGIC INCOME	GLOBAL STRATEGIC USD INCOME
LAUNCH DATE	*1 October 1999*	*3 April 2000*	*2 July 2001*	*30 December 2011*
BENCHMARK	Alexander Forbes 3-month (SteFI) Index	Alexander Forbes 3-month (SteFI) Index	110% of the STeFI 3-month Index	110% of USD 3-month LIBOR
FUND DESCRIPTION	Aims to provide a higher level of income than call accounts.	A conservative option to park capital over the short term.	Conservative asset allocation across the yielding asset classes.	Conservative asset allocation across the yielding asset classes globally with a US dollar bias.
SUITABLE FOR INVESTORS WHO ARE:	• Risk averse, seeking an alternative to call deposits and/or a short-term parking place for their capital. • Focused on capital preservation while not seeking long-term capital growth. • Primarily concerned with stability of capital over the very short term. • Comfortable with the small increase in risk associated with investment-grade money market funds when compared to bank deposits.	• Risk averse, requiring a regular stream of income from their capital base over the shorter term. • Seeking to outperform cash over time and wanting to be protected against interest rate volatility through the cycle. • Seeking an alternative to bank deposits over periods from 1 to 12 months and/or a short-term parking place for their capital. • Seeking a fund with a capital preservation focus while not requiring long-term capital growth.	• Looking for an intelligent alternative to cash or bank deposits over periods from 12 to 36 months. • Seeking managed exposure to income-generating investments. • Believers in the benefits of active management within the fixed interest universe.	• Looking for an intelligent alternative to US dollar bank deposits over periods from 12 to 60 months. • Seeking to utilise their offshore allowance in a conservative manner. • Confident about the benefits of active management in the fixed interest universe. • Seeking managed exposure to global income-generating investments.
ANNUAL RETURN (SINCE LAUNCH)	8.3%	9.1%	10.4%	2.5%*
BENCHMARK	8.1%	8.0%	8.6%	0.7%*
ANNUAL RETURN (LAST 10 YEARS)	7.2%	7.8%	9.3%	-
BENCHMARK	6.8%	6.8%	7.5%	-
HIGHEST ANNUAL RETURN	12.9% *Aug 2002 - Jul 2003*	18.6% *May 2000 - Apr 2001*	18.7% *Nov 2002 - Oct 2003*	7.1% *Jan 2012 - Dec 2012*
LOWEST ANNUAL RETURN	5.1% *Nov 2012 - Oct 2013*	5.8% *Feb 2013 - Jan 2014*	2.6% *Jun 2007 - May 2008*	(1.0%) *Mar 2015 - Feb 2016*

**USD returns*

Figures are quoted from Morningstar as at 31 March 2018 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.

OUR APPROACH

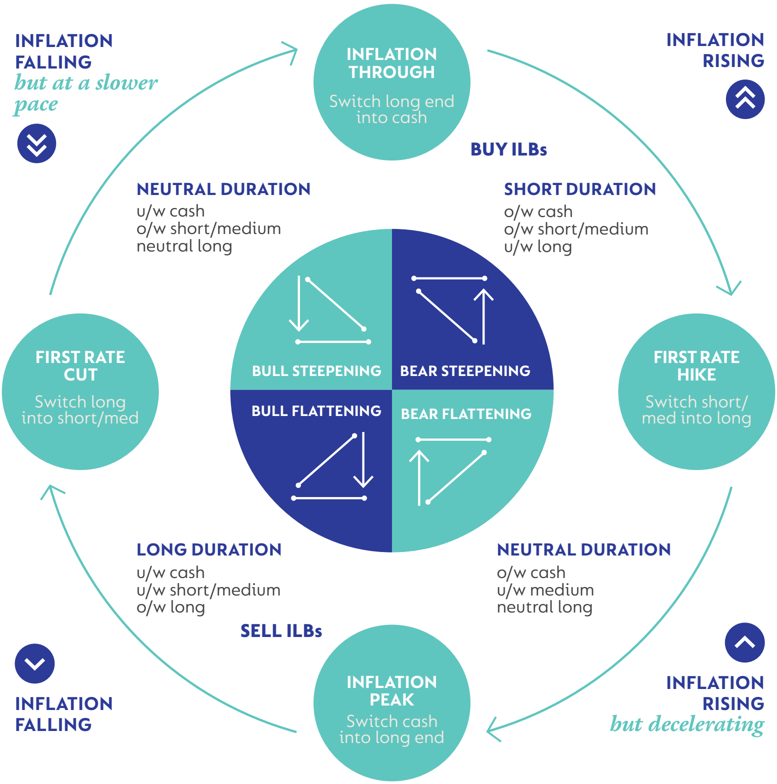
We take an active approach to fixed interest portfolio management. All investment decisions are driven by proprietary research across the full spectrum of potential return enhancers. These include duration and yield curve positions, off-benchmark positions through inflation-linked assets as well as yield enhancement through credit enhanced assets.

As is the case with equities, we believe value can be added through bottom-up security selection when assets are mispriced. Critical to the success of our fixed interest funds is our dynamic response to changing market conditions through active management of portfolio duration (a measure of the sensitivity of the market risk of the fund).

The fixed interest investment cycle (see Figure 4) guides our duration management, asset allocation and yield curve positioning. In its simplest form, the cycle is divided into two halves, which represent a falling inflation environment (good for bonds) and a rising inflation environment (bad for bonds). While the chart looks neat and even, the length of time it takes to move through each quadrant can be very different.

Figure 4

THE FIXED INTEREST INVESTMENT CYCLE



** u/w = Underweight*
o/w = Overweight

AN EXPERIENCED AND BALANCED SKILLS SET

Nishan Maharaj leads our eleven-person team of fixed interest specialists who provide key inputs to extract maximum value from each of the potential return enhancers for the benefit of our investors.

HEAD OF FIXED INTEREST

NISHAN MAHARAJ
14 years

SENIOR PORTFOLIO MANAGER	PORTFOLIO MANAGER	ECONOMIST	PROPERTY PORTFOLIO MANAGER
Mark le Roux	Adrian van Pallander	Marie Antelme	Anton de Goede
26 years	16 years	17 years	18 years

INTERNATIONAL FUNDS	Stephen Peirce	**24 years**
ANALYST	Seamus Vasey	**14 years**
CREDIT ANALYST / PORTFOLIO MANAGER	Mauro Longano	**7 years**
TRADING / ANALYST	Steve Janson	**11 years**
PROPERTY ANALYST / PORTFOLIO MANAGER	Kanyane Matlou	**7 years**
ANALYST / PORTFOLIO MANAGER	Sinovuyo Ndaleni	**2 years**

NOTES

NOTES

Disclaimer

All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. As a result thereof, there may be limitations as to the appropriateness of any information given. It is therefore recommended that the reader first obtain the appropriate legal, tax, investment or other professional advice and formulate an appropriate investment strategy that would suit the risk profile of the reader prior to acting upon information. Neither Coronation Fund Managers Limited, Coronation Management Company (RF) (Pty) Ltd nor any other subsidiary of Coronation Fund Managers Limited (collectively "Coronation") is acting, purporting to act and nor is it authorised to act in any way as an adviser. Coronation endeavours to provide accurate and timely information but we make no representation or warranty, express or implied, with respect to the correctness, accuracy or completeness of the information and opinions. Coronation does not undertake to update, modify or amend the information on a frequent basis or to advise any person if such information subsequently becomes inaccurate. Any representation or opinion is provided for information purposes only. Unit trusts should be considered a medium- to long-term investment. The value of units may go down as well as up, and is therefore not guaranteed. Past performance is not necessarily an indication of future performance. Unit trusts are allowed to engage in scrip lending and borrowing. Performance is calculated by Coronation for a lump sum investment 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. Where foreign securities are included in a fund it may 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 Coronation Money Market fund is not a bank deposit account. The fund has a constant price, and the total return is made up of interest received and any gain or loss made on any particular instrument, in most cases the return will merely have the effect of increasing or decreasing the daily yield, but in the case of abnormal losses it can have the effect of reducing the capital value of the portfolio. Excessive withdrawals could place the fund under liquidity pressures, in such circumstances a process of ring-fencing of redemption instructions and managed pay-outs over time may be followed. A fund of funds invests in collective investment schemes that levy their own fees and charges, which could result in a higher fee structure for this fund. A feeder fund invests in a single fund of a collective investment scheme, which levies its own charges and could result in a higher fee structure for the feeder fund. Coronation Management Company (RF) (Pty) Ltd is a Collective Investment Schemes Manager approved by the Financial Services Board in terms of the Collective Investment Schemes Control Act. Unit trusts are traded at ruling prices set on every day trading. Forward pricing is used. For Domestic Unit Trust Funds and Tax Free Investments, including rand-denominated International Unit Trust Funds, 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). For these Funds, instructions must reach the Management Company before 14h00 (12h00 for the Money Market Fund) to ensure same day value. For International Unit Trust Funds that are denominated in a foreign currency, fund valuations take place at approximately 17h00 each business day (Irish Time) and instructions must reach the Management Company before 12h00 (SA Time) to ensure the value of the next business day. For Retirement Products, fund valuations take place at approximately 15h00 each business day, except at month end when valuation is performed at approximately 17h00 (JSE market close). For these Products, instructions must reach the Management Company before 14h00 to ensure the value of the next business day. Additional information such as fund prices, brochures, application forms and a schedule of fund fees and charges is available on our website, www.coronation.com. Coronation Fund Managers Limited is a Full member of the Association for Savings & Investment SA (ASISA). Coronation Asset Management (Pty) Ltd (FSP 548) and Coronation Investment Management International (Pty) Ltd (FSP 45646) are authorised financial services providers.

For **enquires** you can call us on **0800 22 11 77**
or email us at **clientservice@coronation.com**.

For **new applications or transactions** you can email your forms directly to **transact@coronation.com** or fax us on **+27 21 680 2100**.

For **more information or to invest online**, visit us on **www.coronation.com**.