

COMPELLING ALTERNATIVES
FOR CASH INVESTORS



COROLAB

Your guide to investment ideas

04/19

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

THE CASE FOR INVESTING

in a managed income fund

Investors may need to keep a portion of their savings in cash for different reasons. Business owners with lumpy cashflow may need to park some capital in cash to pay monthly bills such as salaries. Or, individuals who have just retired may wish to have a bucket of retirement savings that is not exposed to near-term market risk. Whatever the reason for needing access to cash in the short term (the next 12 – 36 months), consider investing it in a managed income fund, which can deliver a better return than a deposit at a bank.

Coronation offers two managed income funds for investors wanting to achieve a better return than domestic or US dollar cash. The Coronation Strategic Income Fund and the dollar-denominated Coronation Global Strategic USD Income Fund are both actively managed across the range of yielding asset classes.

CONSIDERATIONS IF YOU WANT TO ACHIEVE A BETTER RETURN THAN A DEPOSIT AT THE BANK

FOR RAND
INVESTORS

Coronation
Strategic
Income

FOR US DOLLAR
INVESTORS

Coronation
Global
Strategic USD
Income

Managed income 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.

DO consider these funds if:

- You need access to cash over the next 12 to 36 months.
- You don't want to take on much short-term risk (over the next 12-36 months).

DO NOT consider these funds if:

- You can invest for periods longer than 36 months.
- You need income to cover your everyday living expenses **over an extended period of time.**
- You want to grow your capital to protect your purchasing power.

HOW WE IMPROVE THE OUTCOMES

for cash investors

To have a chance of achieving a better return than that of a short-term deposit at a bank, investors need exposure to assets with a higher expected return than cash. The Coronation Strategic Income and Global Strategic USD Income funds are managed to achieve this by:

1. Taking considered interest rate and credit risk where appropriate (see definitions on page 5 and 6); and
2. Increasing exposure to alternative sources of return (see definitions on page 7) when the likelihood of outperformance is expected to be high.

Achieving a higher return than cash, however, comes with higher levels of risk. We manage risk 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 our two managed income funds will always outperform cash or protect capital over short periods of time. Our risk objectives in both funds are to protect capital in rand or US dollar over all periods of six months and longer, and to achieve significantly less volatility than that of their respective benchmark bond indices.

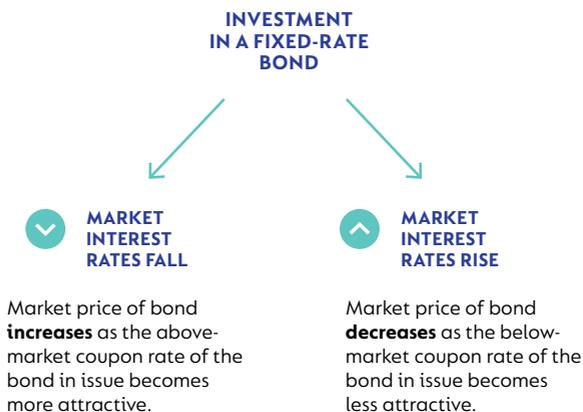
Taking considered interest and credit risk



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

WHAT IS INTEREST RATE RISK?

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 issuing the bond. Here is how it affects the market price of the bond.



NOTE: The longer the period to maturity of the bond, 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.*

WHAT IS CREDIT RISK?

In simple terms, bonds 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 make the agreed upon interest payments. The credit risk associated with corporate bonds is higher than that of government bonds. 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 interest rates is referred to as the 'credit spread'.

We are highly cognisant of credit risk and only invest in corporate bonds when we believe 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.



Increasing exposure to alternative sources of return

PROTECTS AGAINST RISING INTEREST RATES

Floating-rate notes¹

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 therefore makes sense to favour these instruments when interest rates are expected to remain flat or start to rise.

Corporate credit²

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 (ILBs)³

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 property⁴

Listed property 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.

ACHIEVES DIVERSIFICATION

Preference shares⁵

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 bonds⁶

Convertible bonds pay a lower initial coupon than traditional corporate credit. The convertibility 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.

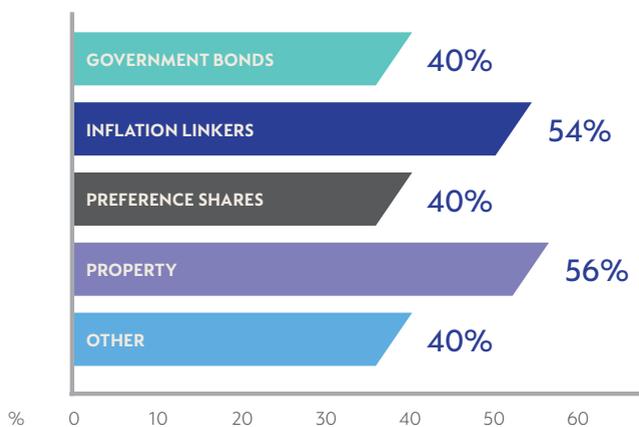
1. Notes that offer a variable interest rate and reflect the changes in market interest rates.
2. Corporate bonds that provide a credit spread above government rates.
3. A bond with cash flows that are linked to the inflation rate.
4. Enables the investor to earn rental income from a diversified portfolio of retail, office, industrial and hospitality properties.
5. Hybrid instruments that pay a regular income in the form of dividends and are typically expressed as a percentage of the prime rate.
6. Corporate bonds that can be exchanged at the option of the holder for a specific number of shares at some point in the future.

Investors are 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 detailed above have outperformed cash by 2% (the internal target of the Coronation Strategic Income Fund). Our view of changing market conditions, and how we respond in the positioning of our managed income funds, is therefore critical to successful outperformance over time.



Figure 1

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



Source: Coronation Fund Managers as at 31 March 2019

OUR APPROACH

to fixed interest investing

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 within the fixed interest universe 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. The fixed interest investment cycle (see Figure 2) 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.

WHAT IS:

DURATION: A measure of the change in the price of a bond or other debt instrument in response to a change in interest rates. Bond prices and interest rates move in opposite direction.

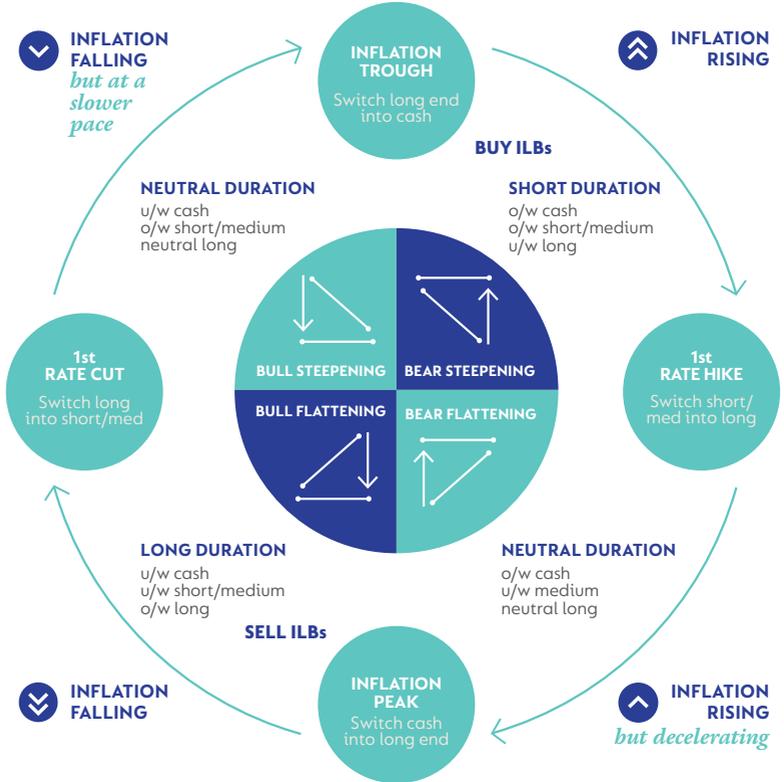
YIELD: A measure of the annual income paid as a percentage of the price of a bond.

YIELD CURVE: A graph that plots the yields of similar-quality bonds against the length of time they have to run to maturity, ranging from shortest to longest.



Figure 2

THE FIXED INTEREST INVESTMENT CYCLE



* u/w = Underweight
o/w = Overweight

OUR FIXED INTEREST

fund range

Coronation offers a range of actively managed funds that meet the needs of investors who are looking to invest for the short term, and to whom capital preservation is of primary importance. These funds are managed according to the same Coronation investment philosophy (disciplined, long-term focused and valuation-based) that we apply across our entire fund range.

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

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	ALTERNATIVE TO DOMESTIC OR USD CASH OVER THE SHORT TERM		ALTERNATIVE TO DOMESTIC CASH OVER THE VERY SHORT TERM	
	STRATEGIC INCOME	GLOBAL STRATEGIC INCOME	JIBAR PLUS	MONEY MARKET
LAUNCH DATE	2 July 2001	30 December 2011	3 April 2000	1 October 1999
BENCHMARK	110% of the STeFl 3-month Index	110% of USD 3-month LIBOR	Alexander Forbes 3-month (SteFl) Index	Alexander Forbes 3-month (SteFl) Index
SUITABLE FOR INVESTORS WHO:	<ul style="list-style-type: none"> Want to achieve a better return than cash or bank deposits in the next 12 to 36 months and are comfortable taking reasonable risk within the fixed interest universe. 	<ul style="list-style-type: none"> Want to achieve a better return than that of US dollar bank deposits in the next 12 to 60 months and are comfortable taking reasonable risk within the fixed interest universe. Are seeking to utilise their offshore allowance in a conservative manner. 	<ul style="list-style-type: none"> Are primarily concerned with preserving capital over the very short term (1 to 12 months) but are wanting to outperform a money market fund without being exposed to interest rate volatility. 	<ul style="list-style-type: none"> Are primarily concerned with preserving capital over the very short term (1 to 12 months) but are comfortable with the small increase in risk associated with investment-grade money market funds when compared to bank deposits.
FUND RETURN (SINCE LAUNCH)	10.3%	2.5%*	9.0%	8.2%
BENCHMARK RETURN (SINCE LAUNCH)	8.6%	1.0%*	7.9%	8.0%
FUND RETURN (LAST 10 YEARS)	9.1%	N/A	7.3%	6.7%
BENCHMARK RETURN (LAST 10 YEARS)	6.9%	N/A	6.3%	6.3%
HIGHEST ANNUAL RETURN & PERIOD	18.7% <i>Nov 2002 – Oct 2003</i>	7.1%* <i>Jan 2012 – Dec 2012</i>	18.6% <i>Mar 2000 – Apr 2001</i>	12.9% <i>Aug 2002 – Jul 2003</i>
LOWEST ANNUAL RETURN & PERIOD	2.6% <i>Jun 2007 – May 2008</i>	(1.0%) <i>Mar 2015 – Feb 2016</i>	5.8% <i>Feb 2013 – Jan 2014</i>	5.1% <i>Nov 2012 – Oct 2013</i>

* USD returns

Figures are quoted from Morningstar as at 31 March 2019 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.

THE TEAM

*An experienced
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

16 years



PORTFOLIO MANAGER & CREDIT ANALYST	Mauro Longano	8 years
PORTFOLIO MANAGER & ANALYST	Seamus Vasey	15 years
PORTFOLIO MANAGER	Adrian van Pallander	17 years
PROPERTY PORTFOLIO MANAGER	Anton de Goede	19 years
ECONOMIST	Marie Antelme	18 years
PORTFOLIO MANAGER & ANALYST	Steve Janson	12 years
PORTFOLIO MANAGER & ANALYST	Sinovuyo Ndaleni	3 years
GLOBAL ANALYST	Stephen Peirce	24 years
TRAINEE PROPERTY ANALYST	Kganya Kgare	6 years
CREDIT INVESTMENT PROCESS	Mark le Roux	28 years

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 Sector Conduct Authority 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), Coronation Investment Management International (Pty) Ltd (FSP 45646) and Coronation Alternative Investment Managers (Pty) Ltd (FSP 49893) are authorised financial services providers.



• + For **enquiries** 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**

