

## 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?

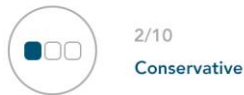
Strategic Income can invest in a wide variety of assets, such as cash, government and corporate bonds, inflation-linked bonds and listed property, both in South Africa and internationally.

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.

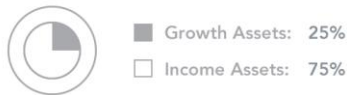
The fund has a flexible mandate with no prescribed maturity or duration limits for its investments. The fund is mandated to use derivative instruments for efficient portfolio management purposes.

## IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

### Risk Profile



### Maximum growth/ minimum income exposures



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 0.45% (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](http://www.coronation.com).

## WHO ARE THE FUND MANAGERS?



**NISHAN MAHARAJ**

BSc (Hons)



**MARK LE ROUX**

BCom



**MAURO LONGANO**

BScEng (Hons), CA (SA)

## GENERAL FUND INFORMATION

<b>Fund Launch Date</b>	2 July 2001
<b>Fund Class</b>	P (previously class B4)
<b>Class Launch Date</b>	1 October 2012
<b>Benchmark</b>	110% of STeFI 3-month index
<b>Fund Category</b>	South African – Multi-asset – Income
<b>Regulation 28</b>	Complies
<b>Income Distribution</b>	Quarterly (March, June, September, December)
<b>Bloomberg Code</b>	CORSTB4
<b>ISIN Code</b>	ZAE000170403

# CORONATION STRATEGIC INCOME FUND

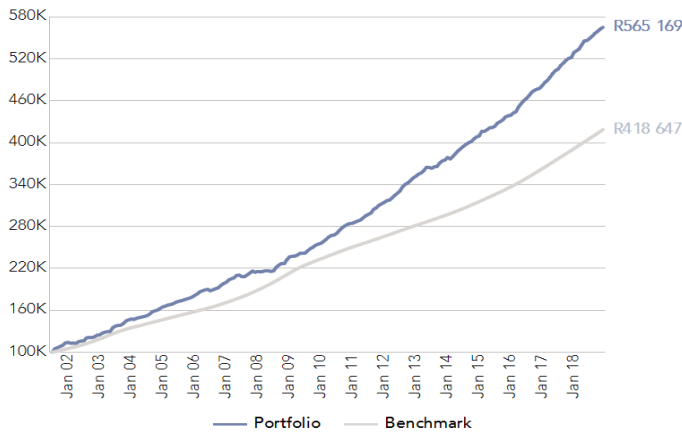
CLASS P as at 30 November 2018

Fund category	South African - Multi Asset - Income
Launch date	01 October 2012
Fund size	R35.25 billion
NAV	1558.28 cents
Benchmark/Performance	110% of the STeFI 3-month Index
Fee Hurdle	
Portfolio manager/s	Nishan Maharaj, Mark le Roux and Mauro Longano

Total Expense Ratio	1 Year	3 Year
Fund management fee	0.54%	0.53%
Fund expenses	0.45%	0.44%
VAT	0.03%	0.03%
Transaction costs (inc. VAT)	0.06%	0.06%
Total Investment Charge	0.01%	0.01%
	0.55%	0.54%

## PERFORMANCE AND RISK STATISTICS

### GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Nov 2018
<b>Domestic Assets</b>	<b>88.4%</b>
Cash	32.8%
Bonds	53.4%
Listed Property	5.2%
Preference Shares	0.8%
Other (Currency Futures)	(3.9)%
<b>International Assets</b>	<b>11.6%</b>
Cash	1.2%
Bonds	9.6%
Property	0.8%

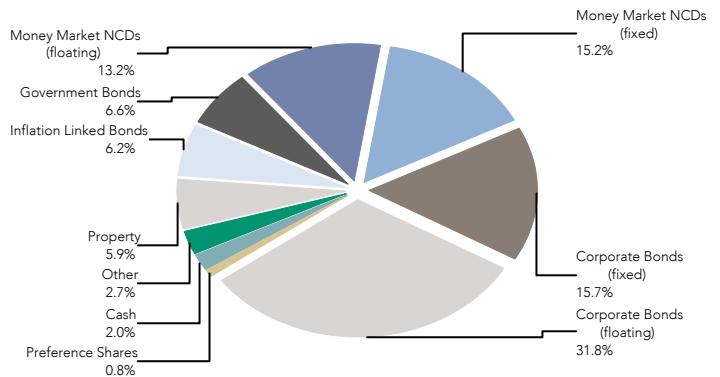
## PERFORMANCE AND MODIFIED DURATION (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	465.2%	318.6%	146.5%
Since Launch (annualised)	10.5%	8.6%	1.9%
Latest 15 years (annualised)	9.4%	7.9%	1.5%
Latest 10 years (annualised)	9.3%	7.1%	2.2%
Latest 5 years (annualised)	8.5%	7.2%	1.3%
Latest 3 years (annualised)	8.8%	7.7%	1.1%
Latest 1 year	8.3%	7.6%	0.7%
Year to date	6.8%	6.9%	(0.2)%

	Fund
Modified Duration	1.7
Modified Duration (ex Inflation Linkers)	1.4
Yield	9.2%

## PORTFOLIO COMPOSITION

### As at 30 Nov 2018



## RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	2.6%	0.7%
Sharpe Ratio	0.90	N/A
Maximum Gain	60.8%	N/A
Maximum Drawdown	(1.3)%	N/A
Positive Months	93.3%	N/A

	Fund	Date Range
Highest annual return	18.7%	Nov 2002 - Oct 2003
Lowest annual return	2.6%	Jun 2007 - May 2008

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
28 Sep 2018	01 Oct 2018	28.70	0.84	27.86
29 Jun 2018	02 Jul 2018	33.51	1.08	32.43
29 Mar 2018	03 Apr 2018	29.26	1.37	27.88
29 Dec 2017	02 Jan 2018	29.31	0.77	28.54

## MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2018	0.4%	0.5%	1.2%	1.0%	0.1%	0.6%	0.6%	0.7%	0.5%	0.6%	0.4%		6.8%
Fund 2017	0.9%	0.6%	1.0%	1.0%	0.8%	0.4%	1.0%	0.7%	0.8%	0.5%	0.2%	1.4%	9.8%
Fund 2016	0.8%	0.4%	1.6%	1.1%	0.9%	0.7%	0.9%	1.0%	0.6%	0.4%	0.3%	0.9%	9.8%

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

The fund returned 0.4% in November, bringing its total return to 6.3% for the year and 7.8% for the 12-month period. This is ahead of the returns delivered by both cash (6.9%) and in line with its benchmark (7.6%) over the same one-year period.

After a brutal October, November was a good month for South African bond markets, and performance was positive. The All Bond Index surged 3.9%, with the rebound concentrated in longer-dated bonds (12+ years), which gained 4.5%. This was followed by the belly of the curve, (7-12 years), which was up 3.3%. Short-dated bonds performed worse, up 1.8%, while inflation linkers returned -1.1%. Cash returned 0.6% in November.

Markets grappled with increasingly mixed global activity data, with a wider base of indicators showing slowing growth momentum – some cyclical, some idiosyncratic. The Federal Reserve hiked the Fed funds target rate as expected, but weaker data in Japan and Europe have dampened expectations of normalisation in these regions. In emerging markets (EMs), weak activity data in China was not offset by news of policy interventions to support growth, while selective rate tightening in a number of EMs suggest growing concern about currency vulnerability to higher US funding costs. Oil prices fell sharply towards month end, allaying some concerns about rising inflation.

A closer look at the economic data shows US growth momentum slowed in Q3-18 off a robust Q2, but, in aggregate, remains strong. GDP was confirmed at 3.5% q/q saa, from 4.2% q/q saa in Q2-18. October headline consumer prices increased from 2.3% y/y to 2.5% y/y, while core inflation eased to 2.1% y/y from 2.2%. Core PCE inflation also surprised to the downside, rising just 0.1% m/m and 1.8% y/y.

The FOMC raised the Fed Funds rate by 25 basis points (bps) to 2.0% - 2.3% in September and maintained its guidance for a further 25bps hike at the December FOMC. However, concerns about the possible impact of escalating trade tension on US output, with growing signs of slower growth momentum, have raised market concerns about a possible pause in the Fed's 2019 anticipated hiking cycle.

Inflation accelerated modestly to 5.1% y/y in October from 4.9% y/y in September. Food inflation moderated and remains low in absolute terms with all the increase related to retail fuel prices. Both general goods and services price pressure remains subdued. Core inflation was unchanged at 4.2% y/y. A large retail fuel price reduction in December should see headline inflation moderate back towards 4.5% y/y and will lower the 2019 trajectory by about 20bps. Despite this, the South African Reserve Bank (SARB) MPC raised the repo rate by 25bps to 6.8% in November, in a 3:3 vote, with the Governor having the casting vote. The MPC has reiterated its desire to see CPI and inflation expectations closer to the mid-point of the target band (4.5%), implying that, despite prevailing low inflation, we can expect modest increases in interest rates in coming months.

At the end of November, shorter-dated fixed rate negotiable certificates of deposit (NCDs) traded at 8.6% (three-year) and 9.1% (five-year), close to 30bps tighter over the month. The spreads of floating rate NCDs have dulled in appeal over the last few quarters due to a compression in credit spreads. There has been a reduced need for funding from banks in 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 100 bps in the three-year area and 110 bps 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 South Africa, Q3-18 GDP data confirmed a modest recovery from recession, with q/q saa growth up 2.2% - at the upper range of forecasts and ahead of consensus at 1.6% q/q) and annual growth of 1.1% y/y (consensus 0.5%). StatsSA detailed data showed a small upward revision to Q2-18 GDP growth, and the Q3-18 detail suggest a modest recovery in consumer spending provided the welcome reprieve.

The rand was up 6.6% over the month, ending at 13.87 to the dollar. Sentiment towards South Africa improved in line with an uptick in emerging market sentiment. The fund maintains its healthy exposure to offshore assets, and when valuations are stretched, it will hedge/unhedge portions of its exposure back into rands/dollars by selling/buying JSE-traded currency futures (US dollar, UK pound and euro). These instruments are used to adjust the fund's exposure synthetically, allowing it to maintain its core holdings in offshore assets. (It has the added benefit of enhancing the fund's yield when bringing offshore exposure back to rand.)

Policy pronouncements have made a small, but welcome, step in the right direction. Local bonds reflect realistic expectations for the local economy and the more unfriendly global environment. South African bonds compare favourably to their emerging market peers, relative to their own history, and offer a decent cushion against further global policy normalisation. At current levels, the yields on offer in the local bond market are attractive relative to their underlying fundamentals and warrant a neutral to overweight allocation.

The local listed-property sector was down 1.3% in November, bringing its return for the rolling 12-month period to -21.3%. Despite the underperformance over the last few quarters, from a valuation perspective, the sector is still very attractive. The changes in the property sector over the last decade (including the increased ability to hedge borrowings and large offshore exposures) have rendered the yield gap between the property index and the current 10-year government bond a poor measure of value. If one excludes the offshore exposure, the property sector's yield rises to approximately 11.1%, which compares very favourably to the benchmark bond. The fund maintains holdings in counters that offer strong distribution and income growth, with upside to their net asset value. In the event of a moderation in listed property valuations (which may be triggered by further risk asset or bond market weakness), we will look to increase the fund's exposure to this sector at more attractive levels.

The preference share index was up 1.5% in November, bringing its 12-month return to 10.2%. 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 9.18% 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, Mark le Roux and Mauro Longano**  
as at 30 November 2018

#### 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](http://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 P NAV prices with income distributions reinvested. Class A NAV prices were used for the period prior to the launch of Class P. 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 2017 (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](http://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.