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

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 listed property (typically max. 10%), preference shares (typically max. 10%), international assets (typically max. 10%) and hybrid instruments (typically max. 5%) 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.

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.

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.

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.

An annual fee of 0.85% (excl. VAT) is payable.
Other costs 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 should consider investing in the fund?

What does the fund invest in?

What are the fund managers?

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

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General fund information

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CORONATION STRATEGIC INCOME FUND
CLASS A as at 31 July 2017

Fund category South African - Multi Asset - Income
Launch date 02 July 2001
Benchmark 110% of the STeFI 3-month Index
Portfolio manager/s Mark le Roux, Nishan Maharaj and Adrian van Pallander

Fund size R27.93 billion
NAV 1548.93 cents
Total Expense Ratio 0.99%
Transaction Costs 0.01%

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

<table>
<thead>
<tr>
<th>Sector</th>
<th>31 Jul 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Assets</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>39.5%</td>
</tr>
<tr>
<td>Bonds</td>
<td>46.1%</td>
</tr>
<tr>
<td>Listed Property</td>
<td>6.7%</td>
</tr>
<tr>
<td>Preference Shares</td>
<td>1.7%</td>
</tr>
<tr>
<td>Other (Currency Futures)</td>
<td>(2.3%)</td>
</tr>
<tr>
<td>International Assets</td>
<td>8.2%</td>
</tr>
<tr>
<td>Cash</td>
<td>2.1%</td>
</tr>
<tr>
<td>Bonds</td>
<td>4.7%</td>
</tr>
<tr>
<td>Property</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

GROWTH OF A R100,000 INVESTMENT

Performance and Modified Duration

Since Launch (unannualised) 399.8% Benchmark 279.5% Active Return 120.3%
Since Launch (annualised) 10.5% Benchmark 8.6% Active Return 1.9%
Latest 15 years (annualised) 9.9% Benchmark 8.4% Active Return 1.5%
Latest 10 years (annualised) 9.2% Benchmark 7.7% Active Return 1.4%
Latest 5 years (annualised) 8.2% Benchmark 6.6% Active Return 1.6%
Latest 3 years (annualised) 8.2% Benchmark 7.3% Active Return 0.9%
Latest 1 year 8.7% Benchmark 8.0% Active Return 0.7%
Year to date 5.6% Benchmark 4.6% Active Return 1.1%

Risk Statistics Since Launch

Annualised Deviation Fund 2.7% Benchmark 0.7%
Sharpe Ratio Fund 0.87 Benchmark N/A
Maximum Gain Fund 60.5% Benchmark N/A
Maximum Drawdown Fund (1.3%) Benchmark N/A
Positive Months Fund 92.2% Benchmark N/A

Income Distributions

As at 31 Jul 2017

Money Market NCDs (fixed) 11.2%
Corporate Bonds (fixed) 8.5%
Money Market NCDs (floating) 7.9%
Inflation Linked Bonds 4.9%
Property 3.2%
Preference Shares 1.7%
Corporate Bonds (floating) 29.3%

Monthly Performance Returns

<table>
<thead>
<tr>
<th>Month</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund 2017</td>
<td>0.9%</td>
<td>0.5%</td>
<td>0.9%</td>
<td>1.0%</td>
<td>0.8%</td>
<td>0.4%</td>
<td>1.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5.6%</td>
</tr>
<tr>
<td>Fund 2016</td>
<td>0.7%</td>
<td>0.3%</td>
<td>1.5%</td>
<td>1.0%</td>
<td>0.9%</td>
<td>0.6%</td>
<td>0.9%</td>
<td>1.0%</td>
<td>0.4%</td>
<td>0.5%</td>
<td>0.3%</td>
<td>0.2%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Fund 2015</td>
<td>1.6%</td>
<td>(0.1)%</td>
<td>0.5%</td>
<td>0.7%</td>
<td>0.1%</td>
<td>0.4%</td>
<td>1.0%</td>
<td>0.4%</td>
<td>0.5%</td>
<td>1.0%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Fund 2014</td>
<td>(0.6)%</td>
<td>0.8%</td>
<td>1.1%</td>
<td>1.0%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.7%</td>
<td>0.6%</td>
<td>0.4%</td>
<td>0.9%</td>
<td>0.7%</td>
<td>0.3%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Fund 2013</td>
<td>0.8%</td>
<td>0.4%</td>
<td>0.9%</td>
<td>1.3%</td>
<td>0.0%</td>
<td>(0.4)%</td>
<td>0.5%</td>
<td>0.1%</td>
<td>1.2%</td>
<td>0.8%</td>
<td>0.3%</td>
<td>1.0%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Fund 2012</td>
<td>0.8%</td>
<td>0.2%</td>
<td>1.0%</td>
<td>1.1%</td>
<td>0.9%</td>
<td>1.0%</td>
<td>1.8%</td>
<td>1.0%</td>
<td>0.6%</td>
<td>1.0%</td>
<td>0.7%</td>
<td>11.9%</td>
<td></td>
</tr>
<tr>
<td>Fund 2011</td>
<td>0.5%</td>
<td>0.6%</td>
<td>0.4%</td>
<td>1.0%</td>
<td>1.1%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>1.8%</td>
<td>0.7%</td>
<td>1.0%</td>
<td>0.7%</td>
<td>10.5%</td>
<td></td>
</tr>
</tbody>
</table>

Please refer to page 4 of the Comprehensive Fact Sheet for important additional information, including change in cost disclosures.
Please note that the commentary is for the retail class of the fund.

The fund returned 0.35% in June, bringing its total return for the 12-month period to 8.56%. This is well ahead of the returns delivered by both cash (7.25%) and its benchmark (8.00%) over the same one-year period.

The market enjoyed a relatively decent second quarter, with the All Bond Index up 1.5% for the three months ending June, slightly behind cash (1.85%) but well ahead of inflation-linked bonds (0.4%) and preference shares (2.3%), which have been the standout performers over the last 18 to 24 months. The performance of local bonds was in large part a function of the strong performance of emerging markets, with the JP Morgan EMBI Global Diversified composite (a proxy for emerging market bond performance in dollars) returning 2.2% the second quarter and 6.2% year to date.

At the end of June, shorter-dated negotiable certificates of deposit (NCDs) traded at 8.46% (three-year) and 8.99% (five-year) respectively, slightly higher than at the end of May. Market pricing now suggests that the repo rate will moderate by around 50bps by the first quarter of 2018. Given our outlook for interest rates, NCDs are looking attractive due to the inherent protection offered by their yields. Bank credit spreads remain elevated due to a combination of new regulatory requirements and SA’s poor macroeconomic backdrop. Spreads in the five-year region have widened marginally to approximately 143 basis points (bps). The fund continues to hold decent exposure to these instruments (both floating and fixed), but we remain cautious given the current local backdrop. We will therefore be more 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.

On aggregate, indicators continue to suggest that a moderate, albeit uneven, global recovery remains intact. In the US, despite a slight softening of the consumer activity carried over from May into June, growth is still on track to be higher in the second quarter than the first (1.4% q/q). The eurozone is doing even better, with higher-frequency macroeconomic indicators showing that the pick up in growth remains broad-based and continues to strengthen. Conditions across emerging markets were much more diverse. Concerns around indebtedness in China resurfaced strongly over the month, although government measures to ensure macro-financial stability are very much evident. More intervention is expected following the all-important five-year conference of the Communist Party, which will be held in the fourth quarter.

Most interesting from a global policy perspective has been the recent hawkish slant adopted by a core group of central banks (including the Fed, ECB and BoE). While just an incremental adjustment to their previous policy stances, the simultaneous signalling of a likely step-up in their individual progress towards normalisation has had meaningful repercussions across financial markets. These efforts to clear the path towards balance sheet normalisation (Fed and ECB) and possible rate hikes (BoE) are set to remain an important influence in the months ahead.

Over the last quarter, there have been some key developments on the local front. Firstly, inflation has continued to fall and the SA Reserve Bank has started to tilt towards moderate inflation. This makes the five-year ILB curve exceptionally flat, with almost all bonds trading at 2.5%. SA’s repo rate is currently at 7%, implying a real policy rate of 1.5% (assumed inflation at 5.4%). This implies investors can buy a short-dated ILB (5-year maturity) at a spread of 1% above policy rates, which is quite attractive, especially when one considers that over the next 12 to 18 months, the policy rate in SA will probably moderate by around 50bps, which will act as a strong anchor for shorter-dated ILBs. In addition, from a total return perspective, if inflation averages 5% over the next year, the five-year ILB will return 7.8%, which is slightly higher than the equivalent five-year nominal government bond. However, in the case of inflation averaging 5.5% to 6%, then the ILB will return 8.33% to 8.82%. In the worst-case scenario, this asset provides investors with an equivalent nominal bond return, but gives added protection in the case of an upside surprise in inflation. This makes the five-year ILB an attractive alternative to a nominal SA government bond, for the portfolio.

The SA listed property sector gained 0.29% in June, bringing its return for the quarter to just under 1%. Over the past year, the property sector has lagged the rest of the fixed income asset suite, delivering a meagre 2.29%. From our recent interactions with many of the listed property companies, it is clear that poor economic conditions have started to affect the local property market. Still, we remain confident that the sector offers selective value. The yield gap between the property index and the current 10-year government bond remains quite steep. If one is excluding low-yielding, high cap stocks from the index, the property sector’s yield rises to approximately 8.7%. The fund maintains holdings in counters that offer strong distribution and income growth, with upside to their net asset value valuations. 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 flat in June, bringing its 12-month return to 6.69%. We continue to favour preference shares given the steady dividend yields on offer, and maintain the fund’s current level of holdings. Preference shares are linked to the prime rate and, depending on the risk profile of the issuer, currently yield between 8.5% and 11% (subject to a 20% dividend 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 (and boost possible buybacks). 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.

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 8.88% 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
Mark le Roux, Nishan Maharaj and Adrian van Pallander
as at 30 June 2017
Unit trusts should be considered medium- to long-term investments. 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. 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 is 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 supplementary 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 Services Board in terms of the Collective Investment Schemes Control Act. Portfolio managed by Coronation Asset Management (Pty) (IFSP 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).

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.

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 for a rolling 36-month period to the last quarter end (December, March, June and September). The TER charged by any underlying fund held as part of a fund’s portfolio is included in the TER figure, 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.

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.

Coronation does not provide financial advice. If you appoint an advisor, advice fees are contracted directly between you and the advisor. We will facilitate the collection of advice fees only upon receiving your instruction, up to a maximum of an initial fee of 3.00% and an ongoing fee of 1.00% per annum (where an initial advice fee of more than 1.50% is selected, the maximum annual advice fee that we will collect is 0.50%). Advice fees are usually collected through the redemption of units. You may cancel the instruction to facilitate the payment of advice fees at any time. Advisors will only share in Coronation fees subject to prior approval by and/or disclosure to the investor. A portion of Coronation’s annual management fee may be paid to administration platforms such as Linked Investment Service Providers (LISPs) as a payment for administration and distribution services.

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

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