CORONATION BOND FUND

Fund Information as at 28 February 2018

CORONATION
TRUST IS EARNED™

WHAT IS THE FUND'S OBJECTIVE?

The fund seeks to maximise returns from a diverse range of primarily South African bonds. It aims to outperform the All Bond Index.

WHAT DOES THE FUND INVEST IN?

The Bond Fund can invest in fixed income instruments, issued by governments, parastatals and private companies, as well as cash. Exposure to foreign assets is limited to 10%. The fund is mandated to make use of derivative instruments for efficient portfolio management purposes.

IMPORTANT PORTFOLIO CHARACTERISTICS AND RISKS

Risk Profile

5/10

Moderate

Maximum growth/
minimum income exposures

Growth Assets: 0%

Income Assets: 100%

The fund is strategically managed to secure an attractive return by investing primarily in a range of government and corporate bonds. It will hold various tactical positions to benefit from the best opportunities as they emerge.

Investments are meticulously researched and subjected to a strict risk management process. Only quality instruments of reputable institutions will be considered. All factors that could affect these investments are carefully monitored, including inflation as well as currency and interest rates.

The risk of losing money over periods of more than a year is low, while it is slightly higher for periods of less than a year. The primary risk exposures are to changes in interest rates and corporate credit events.

HOW LONG SHOULD INVESTORS REMAIN INVESTED?

The recommended term is 12 months and longer.

WHO SHOULD CONSIDER INVESTING IN THE FUND?

Investors who seek the benefits of an actively managed bond fund. The fund is particularly suited to those who require exposure to bonds as part of a diversified portfolio.

WHAT COSTS CAN I EXPECT TO PAY?

An annual fee of 0.75% (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 portfolio 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)

STEVE JANSON

BBusSc

SEAMUS VASEY

BCom (Hons), MSc

GENERAL FUND INFORMATION

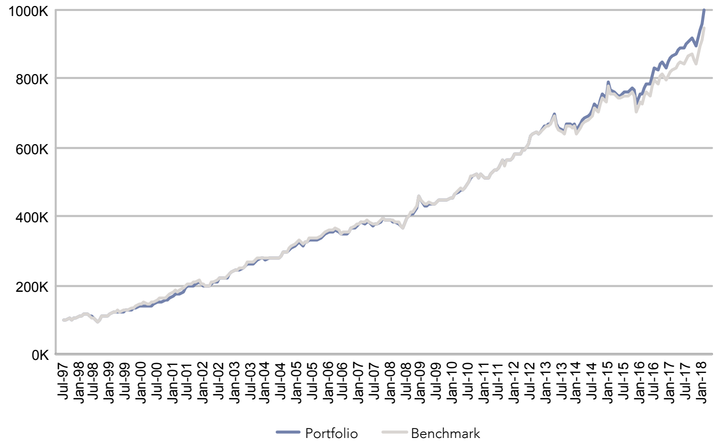
Launch Date	1 August 1997
Fund Class	R
Benchmark	BEASSA ALBI Index
Fund Category	South African – Interest Bearing – Variable Term
Regulation 28	Does not comply
Income Distribution	Semi-annually (March & September)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORSPBD
ISIN Code	ZAE000019790
JSE Code	CNSB

Fund category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 1.79 billion
NAV	1577.57 cents
Benchmark/Performance Fee Hurdle	BEASSA ALBI Index
Portfolio manager/s	Nishan Maharaj, Seamus Vasey & Steve Janson

	1 Year	3 Year
Total Expense Ratio	0.87%	0.87%
Fund management fee	0.73%	0.74%
Fund expenses	0.03%	0.03%
VAT	0.10%	0.10%
Transaction costs (inc. VAT)	0.00%	0.00%
Total Investment Charge	0.87%	0.87%

PERFORMANCE AND RISK STATISTICS

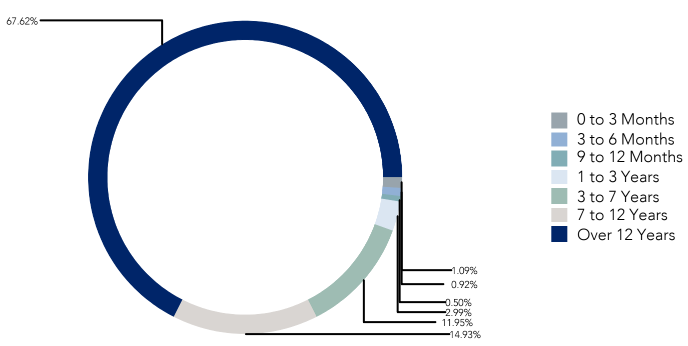
GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PORTFOLIO DETAIL

MATURITY PROFILE

As at 28 Feb 2018



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	895.5%	844.4%	51.1%
Since Launch (annualised)	11.8%	11.5%	0.3%
Latest 20 years (annualised)	11.6%	11.3%	0.4%
Latest 15 years (annualised)	9.8%	9.4%	0.4%
Latest 10 years (annualised)	10.0%	9.3%	0.7%
Latest 5 years (annualised)	8.4%	7.3%	1.1%
Latest 3 years (annualised)	9.2%	7.7%	1.5%
Latest 1 year	15.4%	14.3%	1.1%
Year to date	5.9%	5.9%	0.0%

	Fund
Modified Duration	7.3
Yield	9.7%

MATURITY PROFILE DETAIL

Sector	28 Feb 2018
0 to 3 Months	1.1%
3 to 6 Months	0.9%
9 to 12 Months	0.5%
1 to 3 Years	3.0%
3 to 7 Years	11.9%
7 to 12 Years	14.9%
Over 12 Years	67.6%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.5%	8.6%
Sharpe Ratio	0.33	0.25
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	71.7%	71.3%

	Fund	Date Range
Highest annual return	34.9%	Sep 1998 - Aug 1999
Lowest annual return	(7.0%)	Sep 1997 - Aug 1998

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest
29 Sep 2017	02 Oct 2017	59.78	59.78
31 Mar 2017	03 Apr 2017	60.37	60.37
30 Sep 2016	03 Oct 2016	59.02	59.02
31 Mar 2016	01 Apr 2016	48.68	48.68

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2018	1.87%	3.93%											5.90%
Fund 2017	1.52%	0.57%	0.89%	1.33%	0.88%	(0.32)%	1.31%	1.04%	1.35%	(1.72)%	(0.93)%	4.99%	11.30%
Fund 2016	4.09%	(0.35)%	2.74%	1.81%	(0.69)%	3.66%	2.24%	(0.69)%	2.50%	0.59%	(1.97)%	1.70%	16.60%

Issue date: 2018/03/07

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 2.23% over the last quarter, bringing its return over past 12 months to 11.31%, well above its benchmark (0.01% and 1.09% respectively).

The last quarter of 2017 was particularly eventful in the local bond market. Following the poor Medium Term Budget Policy Statement in October, when SA's fiscal deterioration became a reality, the local 10-year bond sold off aggressively from 8.6% to a high of just above 9.5%. As previously highlighted, these higher levels were a better reflection of underlying risks in the local economy given the policy and political backdrop. Up to the ANC elective conference in December, SA bonds spent most of the quarter at levels of around 9.25% to 9.5%. As Cyril Ramaphosa emerged as the new president of the ANC (and possibly the country), the local bond market rallied to close the year at levels of 8.59%. Before December, there were expectations that bonds would underperform cash for the year, but the All Bond Index (ALBI) ended 2017 up 10.2% (gaining 5.66% in December alone). This is significantly above the performance of cash and inflation-linked bonds, which returned 7.5% and 2.8% respectively. The bulk of the ALBI's performance came from the three- to seven-year and the seven- to twelve-year buckets, which both returned just over 11%, driven primarily by the falling repo rate over the course of the year.

2018 will be a very important year for SA, and the performance of the local bond market will anchor three key outcomes. The first outcome is the ability of government to push through reforms that support a recovery in growth, which is directly tied to Mr Ramaphosa being able to exert his influence as the new leader of the ruling party on policy direction. The second outcome is the trajectory of inflation over the course of the next two years and its implication for the path of the SA repo rates. Finally, the evolution of the global monetary policy environment and its impact on emerging markets will have a large bearing on the direction of international and hence local bond yields.

The issue of policy inaction has led to a steady deterioration in SA's credit fundamentals, as illustrated by the constant downgrades of SA's credit rating over the last two years. SA is now rated below investment grade by all but one of the rating agencies, Moody's (which has SA one notch above subinvestment grade, but intends to pronounce judgement before the end of February). Moody's will be looking for some evidence that government is trying to halt the current path and trajectory of fiscal deterioration, as well as for indications of pro-growth reforms. For SA to avert a downgrade to below investment grade and consequently an exit from the Citigroup World Government Bond Index (WGBI), we would have to see corrective actions implemented at many of the large state-owned enterprises to alleviate concerns around financial stability and more importantly, governance. This would imply the need for new or revamped boards and management teams that could restore confidence in these institutions. In addition, one would have to see a more fruitful partnership between government and the private sector to kick-start growth. Whether Mr Ramaphosa can implement such changes, despite an already divided ruling party, is a question that is unfortunately beyond the scope of this report. However, given that Mr Ramaphosa is seen by the market as a reformist and corporate SA has not spent any money over the last year, we could see a boost to economic growth from 'relief spend' over the first two quarters of 2018, taking growth to above 1.5% for the year. Whether this growth would be sustainable would rely on how quickly reforms are implemented. Moody's will more likely than not be willing to give SA a stay of execution if there is evidence that the country is turning a corner. Even if the downgrade does come, the global backdrop and trajectory of SA economy will play a much more vital role in determining where the local bond market settles.

Two key developments should support a lower (or at least a more stable) inflation profile over the next year. First, the rand has rallied 11% this year, which will continue to subdue the rand price of oil and overall import inflation. Second, the recent decision to only award Eskom a 5% tariff increase, while a problem for Eskom's liquidity, is good news for inflation. The combined effect is that at the bare minimum we should see inflation average 5% to 5.5% over the next two years, implying the real policy rate will average 1.75% to 1.25%. This should allow the SA Reserve Bank (SARB), at worst, to keep the repo rate stable over the next two years and probably bias the next move to the downside.

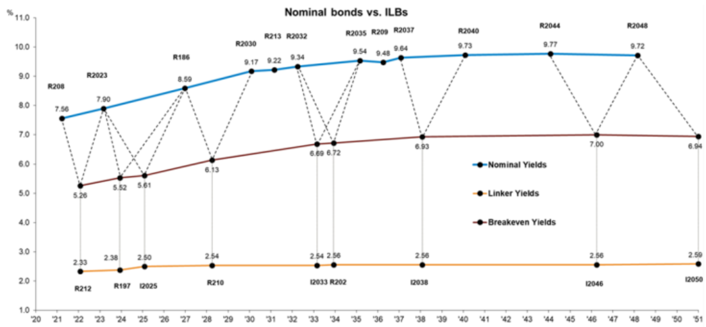
Globally, the path and pace of the increase in US interest rates will remain a key driver for global bond yields. Current market pricing suggests that the federal funds rate will move up to 2% by the end of 2019, slightly below the Federal Reserve's (Fed) own projection of 2.25%. Even if the current term premium (the difference between the US 10-year bond and the federal funds target rate) of 100 basis points (bps) is maintained and the Fed does moves its target rate to 2% to 2.25%, this implies that the US 10-year bond should be in the 3% to 3.25% range as opposed to the current level of 2.4%. Given the current US administration's embrace of pro-growth policies, risks to US inflation will remain tilted to the upside, suggesting the US 10-year bond might overshoot the 3% to 3.25% target. More importantly, however, as history has shown us, is the pace at which global bond yields move higher. If they continue to move higher at a gradual and measured pace, this would maintain a supportive environment for emerging markets. An abrupt change in the direction of monetary policy in the US or the EU, with both aggressively removing monetary policy accommodation, would have a more disruptive impact on emerging markets.

In the table below, we bring together the various elements of our fair value model and then incorporate some of the main points from our discussion in this article. The key takeaway is that at current levels, the SA 10-year bond is fairly valued. Under an adverse outcome (scenario B), we could see a 50 bps move higher in yields, while under a favourable outcome (scenario A), we could see a 58 bps compression in yields. Under scenario A, we assume that the market is correct and the Fed only hikes interest rates twice this year, that SA inflation averages 5% over the next year and that SA adopts a reform agenda as is currently expected. With scenario B, we assume that the Fed hikes four times, SA inflation averages at the top end of expectations (5.5%), US inflation averages 2.25% (resulting in the aforementioned four hikes) and that SA's reform agenda takes longer to implement, resulting in a wider credit spread. Although the risks to the implementation of policy adjustments by Mr Ramaphosa remain high, the fact that he has been appointed the leader of the ruling party and has acknowledged the need for government to clean up its act does leave the risks biased towards further compression in bond yields towards the levels suggested by scenario A.

	Market Level (29/12/2017)	Scenario A	Scenario B
US 10-year bond	2.40%	3.0%	3.5%
Market-implied 10y average inflation expectation for SA	6.09%	5.0%	5.5%
Market implied 10y average inflation expectation for US	-1.98%	-2.00%	-2.25%
South Africa sovereign risk spread	2.2%	2.2%	2.5%
Implied fair value of SA 10-year bond	8.71%	8.2%	9.25%
Current SA 10-year bond	8.78%	8.78%	8.78%
Cheap/(Expensive)	7bps	58bps	(47bps)

An event that could prove problematic is if Moody's chooses to downgrade SA to subinvestment grade, resulting in an exit from the Citigroup WGBI. The magnitude of the associated outflow could be anywhere between $5 billion to $9 billion, which is quite sizeable. However, much depends on the global environment and the trajectory of the local economy. If we are still loosely following the conditions suggested in scenario A, the outflows could be easily digested. This will have very little sustained impact on bond levels, as market participants will use the flow to allocate more to SA government bonds. However, if fiscal consolidation and the reform agenda continue to be pushed out, it is likely that the SA 10-year bond will settle at levels of 9.25% to 9.5%. Despite our expectation for a recovery in the SA economy over 2018, given the symmetric nature of the yield moves, we choose to maintain a neutral outlook on SA government bonds. To build an overweight position, we require better levels to provide a more adequate margin of safety.

Inflation-linked bonds (ILBs) had a tumultuous year, underperforming bonds and cash considerably. Given the current implied market breakeven inflation levels, we still see little value in ILBs with a maturity of greater than seven years. The market expects inflation to average above 6% (close to 7% in the longer-dated bonds), which, given our inflation expectations (5.5%), remains too rich (see the graph below). Our preference is to hold longer-end nominal bonds instead of ILBs. The shorter end of the ILB curve remains an area of interest. Average inflation breakeven levels sit between 5.25% and 5.5%, which is more in line with our forecast and provides one with protection against inflation moving above 5.25% to 5.5%. In addition, with the SARB's real policy rate target being closer to 1.5%, these shorter-end real yields will remain well anchored, increasing their attractiveness.



The SA economy could be at a key turning point if the newly elected ruling party leadership is able to push through much-needed growth reforms, stabilise ailing parastatals and restore confidence in the SA economy. SA's growth could receive a short-term boost from inventory renewal as SA corporates start to spend again after a year-long hiatus. Inflation will remain well behaved, with chances of further downside surprises adding to the case for a lower repo rate. SA government bonds should benefit from this renewed optimism and contained inflation. However, at current levels they are only at fair value, and with exclusion from the Citigroup WGBI Index still a possibility, we are neutral on SA government bonds. We require more attractive levels to enter overweight positions.

Portfolio managers
Mark le Roux and Nishan Maharaj
as at 31 December 2017

IMPORTANT INFORMATION THAT SHOULD BE CONSIDERED BEFORE INVESTING IN THE CORONATION BOND 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. 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) (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 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 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.

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

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