CORONATION BOND FUND

Fund Information as at 31 May 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

CORONATION BOND FUND

CLASS R as at 31 May 2018

CORONATION
TRUST IS EARNED™

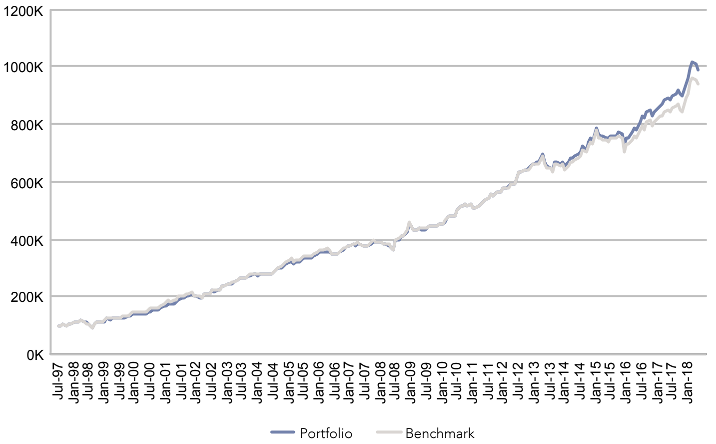
Fund category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 1.92 billion
NAV	1501.66 cents
Benchmark/Performance Fee Hurdle	BEASSA ALBI Index
Portfolio manager/s	Nishan Maharaj, Seamus Vasey & Steve Janson

	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)

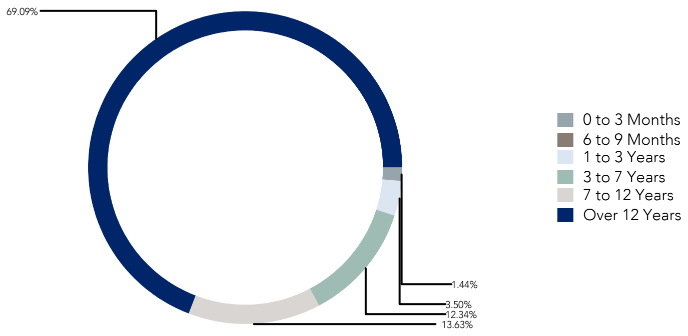
Portfolio R987 790
Benchmark R938 473



PORTFOLIO DETAIL

MATURITY PROFILE

As at 31 May 2018



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	887.8%	838.5%	49.3%
Since Launch (annualised)	11.6%	11.3%	0.3%
Latest 20 years (annualised)	11.5%	11.2%	0.3%
Latest 15 years (annualised)	9.4%	9.0%	0.4%
Latest 10 years (annualised)	10.3%	9.7%	0.6%
Latest 5 years (annualised)	8.2%	7.3%	0.9%
Latest 3 years (annualised)	9.5%	8.1%	1.4%
Latest 1 year	11.1%	10.4%	0.6%
Year to date	5.1%	5.2%	(0.1)%

	Fund
Modified Duration	7.6
Yield	10.0%

MATURITY PROFILE DETAIL

Sector	31 May 2018
0 to 3 Months	1.4%
6 to 9 Months	0.0%
1 to 3 Years	3.5%
3 to 7 Years	12.3%
7 to 12 Years	13.6%
Over 12 Years	69.1%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.5%	8.5%
Sharpe Ratio	0.31	0.24
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	71.2%	70.8%

	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 Mar 2018	03 Apr 2018	65.25	65.25
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

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2018	1.87%	3.93%	1.79%	(0.31)%	(2.22)%								5.10%
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: 2018/06/07

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 themes of late 2017 continued into the first quarter of 2018. Emerging markets continued to move stronger, driven by expectations of strong, synchronous global growth with no significant upward pressure on inflation. Strong upward growth revisions in the US and many of the emerging markets drove global growth expectations higher to between 3.5 and 4% for 2018. Undoubtedly, 2017 was a year of very low or no realised volatility, with the VIX (Chicago Board Options Exchange SPX Volatility Index – a proxy for global market volatility) registering three consecutive all-time lows. However, even a massive spike in that index to levels of 30% from below 10% was not enough to derail the valuations of emerging market currencies and local bond markets in the first quarter of 2018. For the first three months of the year, emerging markets bonds returned 4.3% in dollars as suggested by the J.P. Morgan GBI-EM Diversified Index, compared to 1.4% for emerging market equities and -0.8% for the S&P 500 Index.

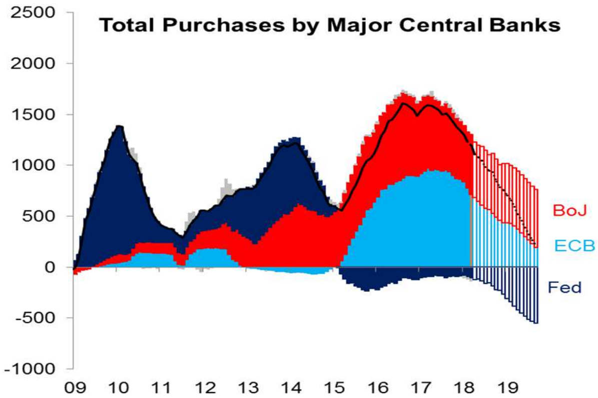
In South Africa, 'Ramaphoria' continued to inspire a further rally in local assets. The election of Cyril Ramaphosa as leader of the ANC was a much-needed step in the right direction; what has proven surprising is the pace and impact of consequent changes. His replacement of Jacob Zuma as president of the country led to a cabinet reshuffle to focus on policy stability and implementation. Emphasis has been on getting SOEs back on track with the appointment of credible individuals at Eskom and the department of public enterprises. Most importantly, Cyril Ramaphosa has inspired a nation to hope again. The announcement of an adequate budget added further credibility, as it sought to put South Africa back on the path to fiscal consolidation by making tough decisions on VAT increases and expenditure. SA bonds, despite rallying 50bps since the ANC elective conference, continued to revel in the 'new dawn', with the benchmark bond rallying another 50bps to end the quarter at 7.98%. The All Bond Index (ALBI) returned 8.1%, driven primarily by the bonds with maturity of greater than 12 years (constituting 60% of ALBI) which returned 10%. The R900bn reduction in bond issuance by National Treasury at their weekly auction drove the outperformance of the longer end of the bond curve.

The local economy is now fundamentally on a much stronger footing, with local inflation forecasts and expectations having been revised lower. Inflation, as measured by the CPI headline index, is set to average 5% over the next two years and should, at the bare minimum, start to alleviate pressure on an economy that has struggled to grow meaningfully above 1% over the last three years. Furthermore, the risks to inflation are tilted to the downside, stemming primarily from food (15% of the basket) and services (50% of the basket) inflation. Service prices are set based on historical CPI measurements and based on the lower expected inflation going forward, it's very likely that this becomes self-reinforcing, resulting in stable to lower services' prices. In addition, regulatory scrutiny in the insurance and medical aid industries should help keep prices in check. The consumer should benefit from lower inflation as real disposable income increases, underpinning the growth recovery. As 'Ramaphoria' filters through South Africa, we should also see a renewed uptick in both business and consumer confidence. This increased confidence should enable corporate SA to start spending on inventory renewal and investing into longer-term projects. The combination of increased consumer spending and fixed investment could help South Africa achieve 2-2.5% growth over the next 2-3 years. While this is a marked improvement, it is still some way off what is necessary to achieve sustainable job creation and reduce poverty levels.

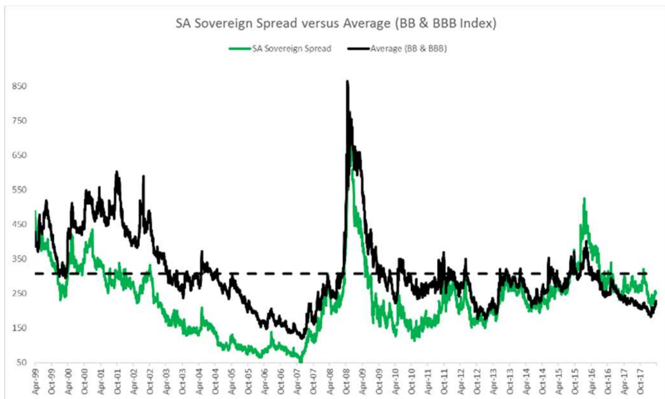
The recent price moves in SA assets have been remarkable, but it is vital for South Africa and financial assets that prices do not move too far ahead of reality, especially given the long road ahead and risks around implementation.

Our fair value for SA government bonds depends on the global risk free rate (US 10y), inflation differential between South Africa and the rest of the world (US CPI) and a credit spread for South Africa as an issuer. At the time of writing, the level for the US 10y is 2.8%, 3% inflation differential (5% in SA and 2% in the US) and a 2.47% SA sovereign spread. This implies a fair value for the SA 10y bond at 8.27%, compared to a market trading level of 8.18%, putting it close to fair value. However, the sustainability of global risk free rate (US 10y) and SA sovereign spread levels must be questioned.

The sheer magnitude of quantitative easing (QE) by the US (FED), Europe (ECB) and Japan (BoJ) since the global financial crisis has driven global bonds yields tighter, particularly in developed markets. Since the FED stopped its QE program in 2014, both the BoJ and ECB have taken up the slack; with purchases far in excess of those made by the FED (see figure below). However, in the next 18 months, global central banks are expected to purchase 80% less than they currently do. This, together with the fact that globally developed market policy rates are on aggregate expected to rise, suggests one should anticipate a further move higher in developed market bonds yields, especially the US 10y. The FED's current forecasts put the FED Funds rate (US policy rate) at 2.875% by the end of 2019, while the market is expecting closer to 2.475%. At the bare minimum, based purely on policy rates, if the FED's forecast is realised it suggests that the US 10y should be trading at 3.2%. Coupled with the removal of the largest buyer of Developed Market bonds from the market (ECB and BoJ), it is easy to justify 3.2% as a minimum expectation rather than a cap on US 10y yields.



The purchase of bonds by global central banks has forced investors to go further up the risk curve in search of yield. This has led to a compression in credit spreads, especially in emerging markets, making it cheaper for many EM countries to borrow money. South Africa has also been a beneficiary of this hunt for yield. The country effectively has a split rating i.e. Fitch and S&P rate it as sub-investment grade while Moody's rates it investment grade. This makes the comparison of South Africa's credit spread quite difficult. Thus, in the graph below, we use an average (black line) of the BBB (IG Credit Index) and BB (first rung of sub-IG Credit Index) to compare SA's credit spread. There are two key observations: Firstly, SA trades slightly cheap relative to this average index given its split rating (~25bps). Secondly, the absolute level of these credit spreads are quite low. If a normalisation were to take place, i.e. if global central banks continue to reduce QE as expected and remove policy accommodation, it is very likely that we would see credit spreads moving closer to their historical average (dashed black line below). This implies that although the SA credit spread might move tighter relative to the average index, the absolute level of credit spreads will have to move wider. The longer-term average of the index is approximately 80bps higher than current levels. To be conservative, if normalisation does occur, we could see credit spreads moving at least half way back to their longer-term average, which is a move of 40bps higher. In such an environment, even if South Africa does everything right and moves back to investment grade, we would still need to see the SA credit spreads 15bps wider. The point is that the current level of the SA credit spread should be seen as a floor/minimum rather than having scope for further compression.



Adjusting our estimates of fair value for the above, we have a global risk free rate of 3.2%, SA credit spread of 2.62% and an inflation differential of 3%. This suggests a fair value on the SA 10y of 8.82%, making the current level of 8.18% expensive.

The outlook for the local economy is much better. Inflation should allow the SARB room to ease rates a little more. In addition, lower inflation and positive sentiment should help increase consumer spending and provide a decent underpin for growth. This could lead to new investment by corporate SA into inventory renewal and long-term projects, which could also add more upside to the growth outlook. The pace of changes made by the new leadership has been impressive, but most of the easy wins have already been realised. What lies ahead is a much tougher battle. SA bonds have ridden the wave of optimism on the back of the new dawn. However, at current levels, most of the good news (if not more) has already been priced in. The risks from global monetary policy tightening (higher policy rates and a reduction in QE) could have negative consequences for SA bonds (which have a very limited buffer to withstand these shocks). We therefore choose to be cautious of SA bonds at current levels, looking instead for more attractive levels before moving to neutral or overweight positions.

Portfolio managers
Nishan Maharaj, Steve Janson and Seamus Vasey
as at 31 March 2018

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 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; 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 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

IMPORTANT INFORMATION REGARDING TERMS OF USE

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