CORONATION BOND FUND

Fund Information as at 30 November 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 30 November 2018

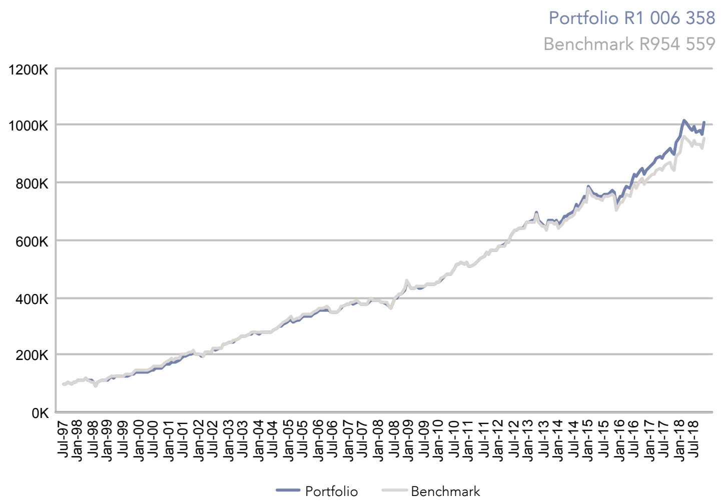
CORONATION
TRUST IS EARNED™

Fund category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 2.65 billion
NAV	1468.98 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

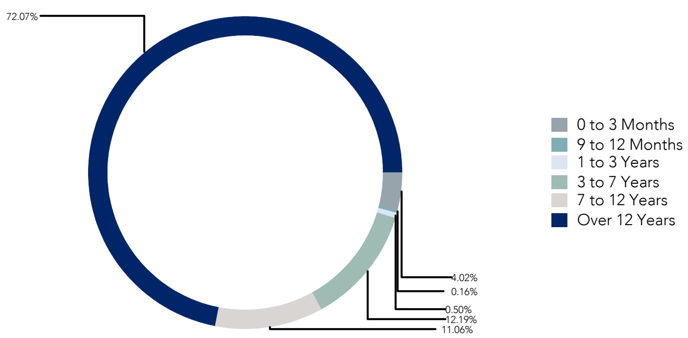
GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PORTFOLIO DETAIL

MATURITY PROFILE

As at 30 Nov 2018



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	906.4%	854.6%	51.8%
Since Launch (annualised)	11.4%	11.2%	0.3%
Latest 20 years (annualised)	11.8%	11.4%	0.4%
Latest 15 years (annualised)	9.0%	8.6%	0.4%
Latest 10 years (annualised)	9.0%	8.3%	0.7%
Latest 5 years (annualised)	8.7%	7.8%	0.9%
Latest 3 years (annualised)	9.6%	8.3%	1.2%
Latest 1 year	12.4%	13.1%	(0.7)%
Year to date	7.0%	7.0%	0.0%

	Fund
Modified Duration	7.8
Yield	10.5%

MATURITY PROFILE DETAIL

Sector	30 Nov 2018
0 to 3 Months	4.0%
9 to 12 Months	0.2%
1 to 3 Years	0.5%
3 to 7 Years	12.2%
7 to 12 Years	11.1%
Over 12 Years	72.1%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.5%	8.5%
Sharpe Ratio	0.29	0.22
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	70.7%	70.3%

	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
28 Sep 2018	01 Oct 2018	59.19	59.19
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

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)%	(0.80)%	1.92%	(2.54)%	0.62%	(1.07)%	3.86%		7.00%
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%

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

Emerging markets and South African fixed income markets managed to keep their heads above water this quarter, but the water wasn't calm. Local bonds produced a negative return in US dollar terms, in large part due to the poor performance of the rand. The local currency fell victim to a broader sell-off in emerging market currencies, which was driven in large part by the sell-off in the Turkish lira and Argentinian peso.

South Africa didn't differentiate itself during the quarter. Economic conditions worsened, with growth materialising below both our and market expectations (-0.7% versus 0.9% expected), which pushed the economy into technical recession. In the context of the weaker emerging markets backdrop, South Africa did not fare well, as is evident by the poor performance of the currency over the quarter. But South Africa's problems are by no means as severe as those of Turkey and Argentina. Once the panic eased, both the rand and local bonds recouped some of their losses. The All bond index (ALBI) was up 0.8% in the quarter, which was slightly behind cash (1.7%) as the longer end of the curve (maturity longer than 12 years) underperformed the rest of the bond curve. Concerns about growth, the implications for tax revenue and further bailout for SOEs weighed on the fiscal outcomes, which led to this underperformance. Inflation-linked bonds have continued to fare poorly, with returns of 0.5% for the quarter and 0.9% over the last year, well behind cash (6.9%) and the ALBI (7.1%).

The euphoria of the first quarter has quickly faded as policy uncertainty remains a key obstacle to South Africa's recovery. Policy trajectory and the intentions of policymakers have moved in the right direction, however, uncertainty around land expropriation without compensation (EWC) and mining regulations have impeded the translation of confidence into actual spending. Towards, the end of the quarter, a new, more acceptable version of the Mining Charter was released, which should ease concerns from the local mining sector. However, in order to see an increase in consumption spending, currently contracting quarter on quarter, more clarity on EWC is required. Given the current rhetoric from policymakers, this should be resolved over the next couple of quarters, which will then help with a faster recovery in growth in 2019.

Despite the depreciation in the currency and rise in the oil price, forecasts for inflation still remain contained. Inflation is expected to stay in the target band over the next 2-3 years and only near the top end of the band in the first half of 2019. The recent SARB rhetoric has indicated an eagerness to raise interest rates, which seems puzzling given the subdued growth and inflation outlook. Our expectations are for rates to remain flat until the second half of 2019. In addition, concerns around a blowout in South Africa's fiscal deficit and implications for a further credit downgrade (which would trigger an exit from the Citi World Government Bond Index), are overdone. The economic assumptions behind the February budget still hold and while revenue has underperformed this year, this has been matched (if not exceeded) by expenditure underruns, which place less pressure on the fiscus and allow Moody's to keep us in investment grade at least until the second half of 2019. Thus the local environment for South African government bonds remains quite supportive.

The change in risk sentiment and the global monetary policy will continue to pose a risk to emerging market sentiment and asset performance. This by implication suggests that there might be further downside to holding local government bonds. As long-term investors, we focus on the valuation of underlying assets relative to fundamentals and whether current valuation provides our client portfolios with a sufficient margin of safety in the event of short-term volatility or adverse price movements. The major choice facing local bond investors is whether to be invested in cash or bonds.

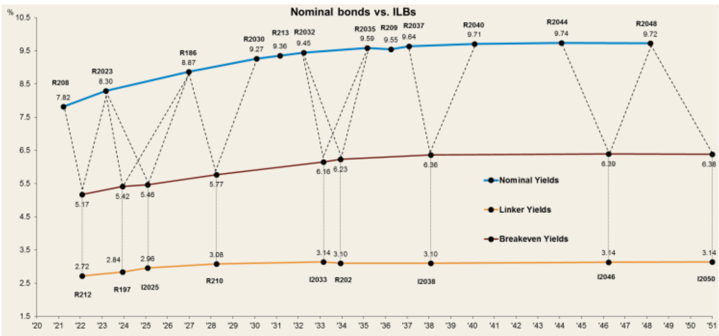
A three-year breakeven analysis of the 12-year and 26-year government bonds, i.e. how much yields could sell off before the return on the government bonds equate to cash (assuming a flat rate of 6.5%), does provide comfort for holders of local government bonds relative to cash. It shows the longer end of the government bond curve offers better value at current levels. It requires a similar magnitude of basis-point movement for both the 12-year and 26-year bond to breakeven relative to cash. In addition, if one is more positive on bond yields (as we will show below), then holding a 26-year fixed rate bond will provide a greater total return than a 12-year government bond, since it trades at a higher yield and has a higher modified duration (capital at risk measure).

In addition to the above analysis, one must ensure that current levels of valuation provide an attractive entry point and a decent margin of safety against an adverse movement in the event the fundamental backdrop deteriorates due to any "black swan" type events. In the table below, we use our fair value stack up (with an adjustment for 12-year government bonds) in order to firstly check whether current levels are attractive and whether, under an adverse scenario, bonds still provide an attractive return over the long term.

	Base	Bear
US 10y	3.25	3.75
SA Inflation	5.00	6.00
US Inflation	2.00	2.50
SA Credit Spread	2.640	2.64
SA 10y FV	**8.89**	**9.89**
SA 12y FV	**9.14**	**10.14**

The main takeaways are firstly that given our base case assumptions of a 3.25% US 10-year rate, 5% South African inflation, 2% US inflation and a steady South African credit spread, bonds are currently cheap. Secondly, even if our worst-case scenario were to play out over the next two years, local government bonds would at worst provide a cash-type return (12y bond yields can move to 10.13% before it underperforms cash+1%).

The next thing one has to decide is whether one should be allocating any bond investments towards inflation-linked bonds (ILBs) in order to provide some diversification and inflation protection to the portfolio. One would only hold inflation-linked bonds which have a breakeven inflation of less than 6%, given the SARB is an inflation-targeting central bank that has never allowed inflation to average more than 6% over any extended period. Therefore, any longer ILB (maturity >= 12y) does not offer value relative to its nominal bond counterpart. However, a case can be made for shorter-date ILB's, where implied breakeven inflation is around 5.5% with real yields of close > 2.5%. In this case, the shorter date ILB offers an attractive pickup relative to the real policy rate (currently at 1-1.5%) and provides one with a "free protection" in the event inflation moves closer to the top end of the band over the next 2-3y.



Recent economic releases have suggested that the local economy is taking much longer than initially anticipated to move onto a sustainable growth path. South Africa's longer-term growth prospects are being dimmed by shorter-term uncertainty on key policies. Policy pronouncements more recently have signaled policymakers' intention for a more market-friendly outcome, which should put growth back on an upward trajectory. Local inflation should remain within the target band, even after the recent selloff in the ZAR and rally in the oil price. Local government bonds provide an attractive return relative to cash, compare favourably relative to their EM peer group and offer decent margin of safety against a shorter-term deterioration in fundamentals. 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.

Portfolio managers
Nishan Maharaj, Steve Janson and Seamus Vasey
as at 30 September 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 R 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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