

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

Maximum growth/
minimum income exposures

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), MBA



STEVE JANSON
BBusSc



SEAMUS VASEY
BCom (Hons), MSc

GENERAL FUND INFORMATION

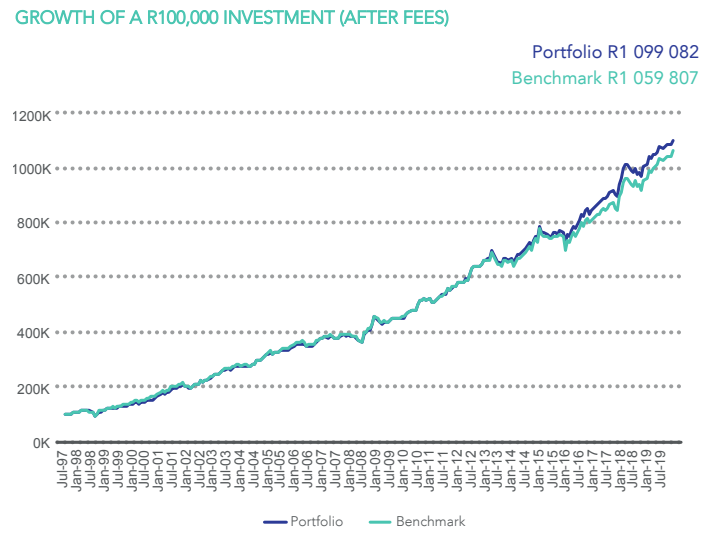
Launch Date	1 August 1997
Fund Class	R
Benchmark	BEASSA ALBI Index
Fund Category	South African – Interest Bearing – Variable Term
Regulation 28	Does not comply
Income Distribution	Semi-annually (March & September)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORSPBD
ISIN Code	ZAE000019790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

CLASS R as at 31 December 2019

Fund category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 2.52 billion
NAV	1478.38 cents
Benchmark/Performance	BEASSA ALBI Index
Fee Hurdle	
Portfolio manager/s	Nishan Maharaj, Seamus Vasey & Steve Janson

Total Expense Ratio	1 Year	3 Year
Fund management fee	0.87%	0.87%
Fund expenses	0.74%	0.74%
VAT	0.02%	0.03%
Transaction costs (inc. VAT)	0.11%	0.11%
Total Investment Charge	0.00%	0.00%
	0.87%	0.87%

PERFORMANCE AND RISK STATISTICS



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	999.1%	959.8%	39.3%
Since Launch (annualised)	11.3%	11.1%	0.2%
Latest 20 years (annualised)	11.0%	10.5%	0.5%
Latest 15 years (annualised)	8.7%	8.3%	0.4%
Latest 10 years (annualised)	9.3%	8.9%	0.4%
Latest 5 years (annualised)	8.2%	7.7%	0.5%
Latest 3 years (annualised)	9.2%	9.4%	(0.2)%
Latest 1 year	8.5%	10.3%	(1.8)%
Year to date	8.5%	10.3%	(1.8)%

Fund	
Modified Duration	7.0
Yield	9.8%

RISK STATISTICS SINCE LAUNCH

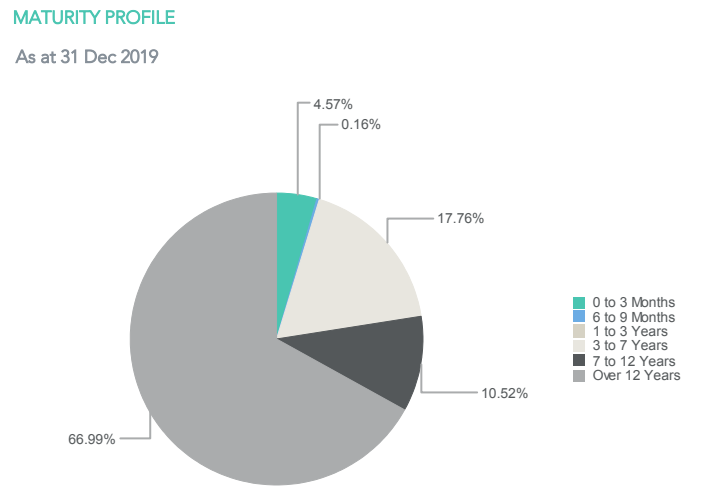
	Fund	Benchmark
Annualised Deviation	7.4%	8.4%
Sharpe Ratio	0.29	0.23
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	70.6%	70.6%

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

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2019	2.73%	(0.33)%	0.91%	0.44%	0.56%	1.80%	(0.62)%	0.92%	0.82%	(0.33)%	(0.27)%	1.66%	8.50%
Fund 2018	1.87%	3.93%	1.79%	(0.31)%	(2.22)%	(0.80)%	1.92%	(2.54)%	0.62%	(1.07)%	3.86%	0.62%	7.70%
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%

PORTFOLIO DETAIL



MATURITY PROFILE DETAIL

Sector	31 Dec 2019
0 to 3 Months	4.6%
6 to 9 Months	0.2%
1 to 3 Years	(0.4)%
3 to 7 Years	17.8%
7 to 12 Years	10.6%
Over 12 Years	67.2%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
30 Sep 2019	01 Oct 2019	59.65	59.65	0.00
29 Mar 2019	01 Apr 2019	62.96	62.73	0.23
28 Sep 2018	01 Oct 2018	59.19	59.19	0.00
29 Mar 2018	03 Apr 2018	65.25	65.25	0.00

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

Despite the amount of turbulence that was injected into financial markets by geopolitical game changers such as Brexit, the US-China trade war and Hong Kong protests, global equity markets closed calendar 2019 up more than 25% in US dollars (as measured by the MSCI World and All Country World indices). Global bond markets were no exception, as most bond markets saw their yields compress over the course of the year, driven by a slowdown in global growth and a dovish twist by global central banks. Emerging market bonds provided a total return of circa 13.5% in US dollars as the hunt for yield intensified in a world where US\$11.2 trillion worth of debt now trades at a negative yield.

Despite the rally in global equity and bond markets, South African (SA) bond and equity markets underperformed their global peers. The local economy continued to slow due to concerns about deteriorating government finances and State-owned enterprises, and specifically Eskom, as bouts of load shedding continued to intensify. The All Bond Index (ALBI) produced a total return of 10.3% in rands (13.1% in US dollars), which was driven by a rally in the three- to 12-year area of the curve, as expectations of further interest rate cuts continued given the low-growth and contained inflation environment. The slow pace of policy change, implementation and tough decision making will continue to weigh on the country into 2020.

In 2020, the spotlight will be on SA policymakers and their ability to change the course of the local economy and show marked progress in the right direction. As long-term investors, our key objective is to ensure that we price risk correctly and that our clients' portfolios are robustly positioned by ensuring that they are well diversified, avoiding the risks that accompany positioning towards a single-market outcome.

This implies that a great deal of time is spent on understanding the fundamental drivers of asset prices and whether the assets we hold on behalf of our clients are adequately priced with a sufficient margin of safety to buffer against short-term adverse volatility. For SA government bonds (SAGB), this implies understanding the fundamental direction of the local economy and ensuring that they are priced to reflect prevailing and expected conditions. There are three key drivers of SAGB yields:

1. Monetary policy expectations

Monetary policy is driven by inflation and the growth outlook. Inflation is expected to average close to 4.5% over the next two years, which is at the midpoint of the inflation targeting band, while growth is not expected to reach 1.5% until 2021 (SA's growth has averaged sub-1% since 2015), while global growth is expected to average just above 3%. The monetary policy committee (MPC) has reiterated that they want inflation to maintain the midpoint, so that it can use monetary policy more effectively during times of crisis. SA's economy is struggling to grow and although monetary policy is a blunt tool, it can be used to boost confidence and relieve some consumer pressure. Currently, real policy rates are above 2% and if the repo rate does not move, the real policy rate will average 1.7% over the next two years. In previous cycles, when growth was this low, the real policy rate averaged close to zero. This suggests that there is room for the MPC to move policy rates at least 50 basis points (bps) lower over the next year.

2. Fiscal policy expectations

In SA fiscal policy has been on a slippery slope since the Global Financial Crisis, as the administration has struggled to narrow the fiscal deficit and government debt has ballooned. The reasons for this are well known, but in recent years the slowdown in growth has decreased tax revenue, while expenditure has continued to increase to rescue ailing SOEs (Eskom, South African Airways, Denel). Eskom has been and remains the biggest risk to the local economy. Turnaround plans have been tabled and key personnel have been replaced, but due to the extent of a decade plus of maladministration and corruption, operational turnaround has been slow. It is inevitable that financial support will be ongoing, and government will need to cut expenditure in other areas to keep the Nation's ailing power supplier online.

The February 2020 budget will be another watershed moment, as investors will again look to policymakers to make the hard, shorter term decisions, such as freezing or cutting the government wage bill despite union objections. Most ratings agencies have given up hope on SA and moved us into sub-investment territory. Moody's is the only agency that has retained SA as investment grade, which keeps us in the FTSE World Government Bond Index (WGBI). However, given the deterioration seen over the last year, it is very likely that they will downgrade SA in 2020, which should see outflows from the local bond market of between R70bn and 120bn. This seems like the end of the world, but we should not forget that, a) SA has a very deep and liquid bond market; b) SA's saving industry is also very large and sophisticated; c) the fundamental deterioration and the risks around it have been well flagged over the last two to three years, so investor positioning has adjusted accordingly; and d) SA comprises less than 1% of the WGBI, so at current valuations investors might choose not to exit.

While we are likely to see some fiscal effort in the budget and some tough stances regarding SOEs, keeping policy trajectory headed in the right direction, that doesn't rule out an exit from the WGBI. In the worst case, government does not manage to show a better picture in the budget in February 2020 and SA exits the WGBI, but that does not mean the end of the world for SAGBs given the current risk premium embedded in assets (refer below).

3. Global cost of capital

Global bonds are trading close to all-time lows due to the slowdown in global growth, flight to safe-haven assets amongst geopolitical uncertainty and the dovish twist seen by global central banks in 2019. It is inevitable that bond yields will move higher over the next five to 10 years, however in the next two to three years they could also move lower before moving higher. Global inflation remains low, with global growth set to remain sluggish. Central banks globally have continued to inject large amounts of liquidity into financial markets in order to keep crises at bay and will continue to engineer a soft landing for the global economy. This might not be the goldilocks economy of the early 2000s for emerging markets, but it will definitely be less turbulent than we have seen previously. Until we see a turn in global inflation,

one should not expect to see a ramp up in global policy rates, which means that global bond yields should see only moderate fluctuation.

The backdrop for SAGBs is therefore mixed. Monetary policy should be supportive, fiscal policy will remain in the spotlight and the global cost of capital, although it should remain supportive in the short term, might be unfriendly over the longer term. However, from a valuation perspective, these risks seem to be adequately priced. Firstly, SAGB's spread over the US 10-year (global risk-free) rate is quite extended. This suggests enough room for SAGBs to absorb a move higher in global bonds. The follow-on question would surely be: If SA continues to deteriorate, should the breadth of the spread represent creditworthiness? At current levels, however, SA's credit spread already trades very wide relative to both the investment grade (IG) and sub-IG indices, suggesting that further deterioration away from even sub-IG norms is being priced.

Despite what might seem like an impressive return relative to cash in the local context, SAGBs have underperformed their peers considerably over the last five years due to a fundamental deterioration in SA. In the last five years, SAGB nominal yields have risen by 148 basis points (bps), while the implied 10-year real yield has risen by over 200bps. This compares to the emerging markets average of a 61bps compression in nominal yields and relatively small compression in implied real yields. As such, SAGBs are now the cheapest in the emerging market universe from an implied real yield perspective and the second cheapest from a nominal bond perspective.

Constructing a fair value for SAGBs using the global risk-free rate, inflation differentials (difference between SA and US expected 10-year inflation) and a measure of creditworthiness for SA (the SA Credit Spread) also suggests the SA 10-year bond, currently trading at 9% is at inexpensive levels. Even adjusting current variables for expectations around a rise in the global risk-free rate, brings one to a similar conclusion. The confluence of this evidence suggests that SAGBs are adequately priced for current risks

We believe that bonds in the longer end of the curve continue to offer the best value. To ascertain which point on the SAGB yield curve is the most attractive, we use a total return analysis with a three-year horizon period across various bond maturities. The table shows how these bonds will perform if:

- 1) the yield curve moves parallel up 1%;
- 2) the yield curve moves parallel down 1%;
- 3) how much each bond can sell off before it breaks even with the ALBI; and
- 4) how much each bond can sell off before it breaks even with the 10-year bond (R2030).

Figure 1: Total return analysis (three-year horizon)

Bond	Maturity	Current Yield	Total Return		Breakeven relative to ALBI	Breakeven relative to 10-year (R2030)
			Yield curve rallies by 1%	Yield curve sells off by 1%		
R186	21 Dec 2026	8.25%	9.93%	7.86%	-1.41%	-1.16%
R2030	31 Jan 2030	9.02%	11.43%	7.99%	-0.42%	
R2035	28 Feb 2035	9.73%	12.85%	8.18%	0.01%	0.13%
R2040	31 Jan 2040	10.03%	13.51%	8.17%	0.11%	0.22%
R2044	31 Jan 2044	10.10%	13.82%	8.08%	0.13%	0.23%

Source: Bloomberg and Coronation

The above analysis, taken together with the fact that the difference between the 30-year and 10-year areas of the SAGB yield curve is close to the widest it has ever been (1.39% during the taper tantrum of 2013), suggest that bonds in the longer end of the curve continue to offer the best value in our view.

Inflation-linked bonds (ILBs), once again, underperformed nominal bonds in 2019, with a return of 2.6% for the year. Only shorter dated inflation-linked bonds provided a positive return, albeit below cash. A five-year ILB trades at a real yield of 3.6%. Using expected inflation of 4.5%, if one holds this bond for the next three years the nominal return would be in excess of 8%, which compares very favourably to equivalent maturity nominal bonds.

In addition, with expectations for the real policy rate to move closer to 1%, it makes the carry-on shorter dated ILBs even more attractive. At current levels, shorter dated ILBs therefore do warrant a position in a bond portfolio.

The SA economy has been plagued with low growth, ballooning government finances and a volatile global geopolitical environment. Low growth and well contained inflation suggest the trajectory for SA policy rates to be lower over the next 12 months. In addition, SA bonds have continued to underperform relative to their global and emerging market counterparts, suggesting an increased risk premium given SA's precarious economic backdrop. At current levels, SAGBs seem adequately priced relative to underlying risks, which suggest a neutral allocation in portfolios.

Portfolio managers

Nishan Maharaj, Steve Janson and Seamus Vasey
as at 31 December 2019

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 2019 (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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