

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

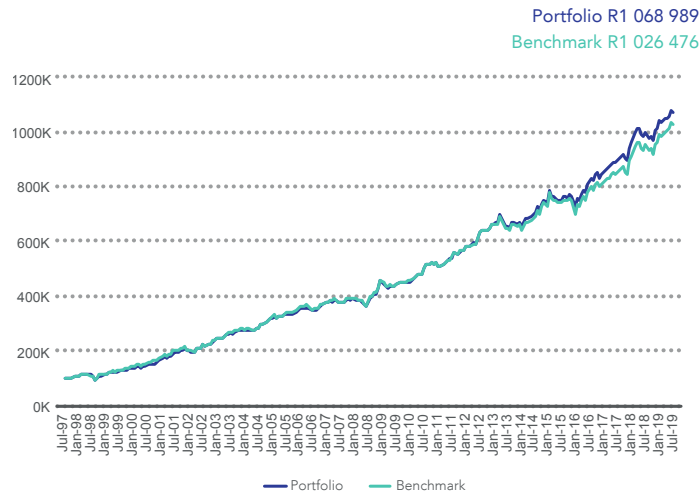
CLASS R as at 31 July 2019

Fund category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 2.39 billion
NAV	1496.56 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	0.73%	0.73%
VAT	0.03%	0.03%
Transaction costs (inc. VAT)	0.10%	0.11%
Total Investment Charge	0.00%	0.00%
	0.87%	0.87%

PERFORMANCE AND RISK STATISTICS

GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	969.0%	926.5%	42.5%
Since Launch (annualised)	11.4%	11.2%	0.2%
Latest 20 years (annualised)	11.3%	11.0%	0.3%
Latest 15 years (annualised)	9.2%	8.9%	0.3%
Latest 10 years (annualised)	9.3%	8.8%	0.5%
Latest 5 years (annualised)	8.7%	8.2%	0.4%
Latest 3 years (annualised)	8.9%	8.8%	0.1%
Latest 1 year	7.0%	8.1%	(1.0)%
Year to date	5.6%	6.9%	(1.3)%

Fund	
Modified Duration	6.8
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	70.8%	70.5%

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

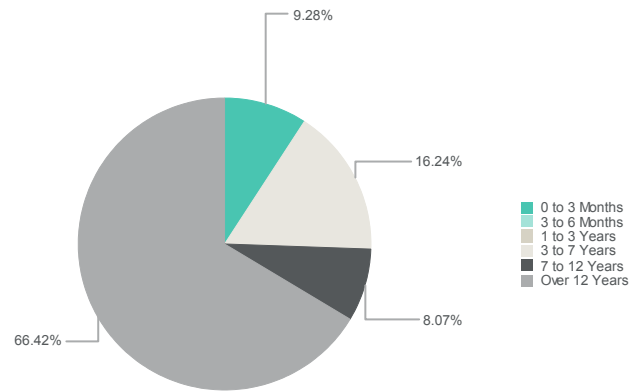
MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	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)%						5.60%
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

As at 31 Jul 2019



MATURITY PROFILE DETAIL

Sector	31 Jul 2019
0 to 3 Months	9.5%
3 to 6 Months	(1.2)%
1 to 3 Years	(0.7)%
3 to 7 Years	16.5%
7 to 12 Years	8.2%
Over 12 Years	67.7%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
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
29 Sep 2017	02 Oct 2017	59.78	59.78	0.00

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

In the early part of this millennium, the US accounted for about a third of global growth. Since then, the country's contribution has reduced to just under 25%, but arguably its influence on financial markets has increased. The US 10-year bond led the performance of global bonds in the quarter to the end of June 2019 (Q2-19). Increasing concerns over lower growth, due to the intensification of the US-China trade war, combined with benign inflation expectations, led to more dovishness from the US Federal Reserve (Fed) and the European Central Bank, which fuelled the global bond market rally. By the end of June, the US 10-year bond yield had rallied to 2% (down from 2.7% at the beginning of 2019), while approximately \$13 trillion worth of global government bonds slipped into negative yielding territory. This spurred a rally in nearly all emerging market currencies and bonds, as the carry trade came back into vogue.

The All Bond Index (ALBI) was up 3.7% over Q2-19, bringing its return to 11.5% over the last 12 months. This performance is well ahead of both cash (Q2-19: 1.7%; rolling 12 months: 6.9%) and inflation-linked bonds (ILBs) (Q2-19: 2.9%; rolling 12 months: 4.0%). The outperformance of the ALBI was driven by the seven- to 12-year area where bonds rallied 30 basis points (bps) to 50bps versus bonds with maturities longer than 12 years that only rallied 8bps to 10bps. Prospects of rate cuts in South Africa buoyed the seven- to 12-year area, while further fiscal deterioration, due to lower growth and larger state-owned enterprise (SOE) bailouts, weighed heavily on longer-dated South African government bonds (SAGBs). The strong performance of the ALBI over the last quarter, combined with the appreciation of the rand (2.3% versus the US dollar), put SAGB performance at 6.6% in US dollar terms, slightly ahead of global emerging market bond performance of 5.7% in US dollars (JP Morgan Government Bond Index – Emerging Markets Global Diversified Composite).

Top-down valuation of SAGBs is still quite attractive. Ten-year nominal yields of 8.8% with an implied real yield of 3.9% (one-year forward) is well above the emerging markets' average nominal rate of 5.7% and average real rate of 1.7%. In addition, 10-year SAGBs yield 6.8% more than the US 10-year bond (8.8% minus 2%). This is 1.2 standard deviations higher than the 10-year average, suggesting some degree of cheapness. However, as history has shown us, the bottom-up fundamental drivers of the local economy have been a much larger influencer of bond valuations over time. The two questions that need to be answered are around the sustainability of global bond yields (specifically US bond yields) and what magnitude of fiscal deterioration is being priced into SAGBs.

In the US, over the next two years, the economy is expected to remain close to full employment, personal consumption expenditure (the Fed's preferred measure of inflation) is likely to remain sticky at around 2% and growth is expected to decelerate from 2.5% to 1.8%. In addition, average hourly earnings of employees (a large indirect contributor to US inflation) have been running well over 3% for almost 18 months and more than 2% for at least five years.

These are hardly the signs of an economy that is going into recession or one that warrants a serious amount of monetary policy accommodation. The market is currently looking for approximately 1% worth of interest rate cuts over the next two years. The Fed's own projections suggest 0.5% worth of cuts over the next six to nine months and rates moving back up to current levels by the end of 2020. Given what is currently known about US inflation, growth and the US-China trade-war truce, the current pricing of the US 10-year bond seems expensive. Fair value for this instrument is probably closer to 2.75% to 3%, based on expected inflation of 2% and a real policy rate of 0.75% to 1% (a real policy rate more reflective of an economy growing at 2% per year and inflation at 2%).

On the local front, fortunately, inflation should average 5% until the end of 2021 – due to the poor demand environment and subdued services prices. Unfortunately, growth is expected to average less than 1.5% over the same time horizon, given the constraints on consumer spending and corporate investment. This benign growth and inflation environment should allow the South African Reserve Bank to reduce interest rates by around 0.5% over the next six to nine months, which is supportive for local bonds. However, given the slow nominal growth environment (a combination of slow real GDP growth and low inflation) and the need for more extensive support for SOEs (for example Eskom), government finances are set to deteriorate even further. Just using current economic assumptions, the budget deficit is likely to be well below -5.5% over the next three years and the debt-to-GDP ratio above 60% by 2021. Frontloading further support for Eskom will worsen these numbers. The budget deficit and the debt-to-GDP ratio will move to approximately -6% and 60%, respectively, a lot earlier (this does not include a debt transfer from Eskom's balance sheet to that of the sovereign). The net effect will be a further deterioration in South Africa's creditworthiness, a downgrade to sub-investment grade by Moody's and an exit from the Citigroup World Government Bond Index (WGBI) by March 2020, if not sooner.

The fair value for 10-year SAGBs is approximately 8.62% to 8.82%. This is based on expectations of a US 10-year bond yield of 2.75% to 3%, South African expected inflation of 5%, US expected inflation of 2% and a South African credit spread of 2.87% (0.2% higher than the spot rate to factor in a further deterioration in South Africa towards sub-investment grade levels). At current levels of 8.68%, the South African 10-year bond sits in that fair value range (8.62% to 8.82%), but does not offer a large margin of safety. At best, it only warrants a neutral to slightly underweight allocation, given the impending fiscal risks.

In Q1-19, as evidenced by the performance of the various sectors of the ALBI, longer-end SAGBs (in the 20- to 30-year area) materially underperformed 10-year SAGBs. In the last year, the spread that the 20-year SAGB trades above the 10-year SAGB has moved from 0.5% to currently more than 1% above. On the surface, this looks like an attractive entry point.

In the table below, we show a total return analysis for a few government bonds over three years in a scenario where bonds sell off or rally 100bps (1%). In addition, the last column shows the breakeven move for the longer-dated bonds relative to the 10-year bond (R2030) – that is, by how much those bonds can sell off before their total return equates to that of the 10-year bond. The results of our analysis are supportive of longer-dated SAGBs. In the event that bonds rally aggressively (100bps), longer-dated SAGBs outperform; and if bonds sell off aggressively (100bps), one is no worse off than being invested in a 10-year SAGB. These bonds can sell off 30bps more (and so steeper 30bps relative to 10-year SAGBs) before their performance equates to the 10-year SAGB. Based on these results, the case for allocating capital to the long end of the SAGB curve is very compelling.

TOTAL RETURN ANALYSIS: LONG-END BONDS

Bond	Maturity	Yield	Total return (1% rally)	Total return (1% sell-off)	Breakeven relative to 10-year SAGB
R186	21 Dec 26	8.09%	8.90%	7.00%	-
R2030	31 Jan 30	8.83%	10.00%	7.10%	-
R2035	28 Feb 35	9.44%	11.00%	7.20%	0.30%
R2040	31 Jan 40	9.65%	11.50%	7.10%	0.30%
R2044	31 Jan 44	9.70%	11.70%	7.00%	0.30%

Sources: Coronation, Bloomberg

ILBs have underperformed nominal bonds for over 10 years now, with the underperformance being most pronounced in the last two years (ALBI 10.8%; Composite Inflation-Linked Index [CILI] 3.1%). This underperformance has been driven by a rally in nominal bonds and a sell-off in ILBs. Real yields have moved higher by approximately 150bps to 200bps over the last five years, depending on which area of the curve one is looking at. Most of the ILB yield curve trades close to, if not above, a real yield of 3%. This absolute level of real yield does seem attractive relative to history. In the following table, we run a total return analysis for nominal SAGBs and ILBs for parallel shifts in the yield curve (+50bps, +25bps and -25bps) and two inflation scenarios (average inflation over the next two years of 5% and 6.3%). For the ILBs, we show the relative total return to that of nominal bonds; for example, 0.7% implies for that bond and scenario that the ILB outperforms the nominal bond by 0.7%. As demonstrated in the table, the shorter-dated ILBs are more attractive than nominal bonds under all scenarios. Shorter-dated ILBs therefore warrant a more favourable allocation in a bond portfolio relative to shorter-dated nominal bonds.

INFLATION-LINKED BONDS: TOTAL RETURN ANALYSIS RELATIVE TO NOMINAL GOVERNMENT BONDS

Yield curve shifts	R197 (4-year)	I2029 (10-year)	I2050 (32-year)	R197 (4-year)	I2029 (10-year)	I2050 (32-year)
+50bps	0.50%	(1.30%)	(6.30%)	1.50%	(0.30%)	(5.00%)
+25bps	0.70%	(0.90%)	(3.70%)	1.70%	0.10%	(2.70%)
0bps	0.90%	(0.40%)	(1.00%)	1.90%	0.60%	0.00%
-25bps	1.10%	0.10%	1.90%	2.10%	1.10%	2.90%

- Inflation scenario 1 (base case of 5% average inflation over next 2 years)
- Inflation scenario 2 (stressed case of 6.3% average inflation over next 2 years)

Sources: Coronation, Bloomberg

Corporate bonds (credit) have been a valuable tool within a bond portfolio when it comes to alpha generation. In the last two years, there has been a significant compression in corporate bond spreads that has made credit an outperformer among all asset classes.

However, one must not forget that holding credit assets in a portfolio is not riskless. Credit spreads do move and being caught on the wrong side of the credit spread move can be very painful. In the last 10 years, the ALBI has increased in risk (modified duration), as issuance in longer-dated SAGBs (maturity >12 years) has increased, resulting in over 60% of the index now comprising longer-dated SAGBs. In the last decade, the modified duration of the ALBI has moved from approximately 5.5 years to 7.1 years, and the yield of the ALBI relative to a 10-year SAGB has moved from 0bps to 50bps over. This has meant that the hurdle for holding credit assets has moved higher. An analysis of fixed-rate credit spreads relative to SAGBs and relative to the ALBI, as well as the breakeven-credit spread move relative to the ALBI (how much credit spreads can widen before that credit asset underperforms the ALBI) shows that the compression in credit spreads, combined with the increase in the yield of the ALBI, has severely reduced the margin of safety when it comes to including credit as part of a bond portfolio. We would thus be cautious on adding credit assets at current levels.

Cyclical economic factors are supportive of bond yields. Inflation should remain benign and growth subdued, which will allow an easing in policy rates. However, persistently low growth and the need for further support of SOEs will weigh heavily on government finances, resulting in wider budget deficits and a significant increase in the debt burden. SAGBs are most likely to exit the Citigroup WGBI in the next 12 months as pressure mounts on Moody's to move South Africa into sub-investment territory.

The global environment has turned more supportive for emerging markets and for South Africa. However, SAGBs have a very limited margin of safety against a turn in global sentiment or a worsening in local economic conditions. Therefore, it is prudent to maintain a neutral to slightly underweight allocation to SAGBs at current levels. Any exposure to South African bonds should be taken in longer-dated SAGBs and shorter-dated ILBs.

Portfolio managers
Nishan Maharaj, Steve Janson and Seamus Vasey
as at 30 June 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 2018 (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

This document is for information purposes only and does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe for or purchase any particular investment. Opinions expressed in this document may be changed without notice at any time after publication. We therefore disclaim any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable, directly or indirectly, to the use of or reliance upon the information.