CORONATION BOND FUND

Fund Information as at 30 November 2019

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), 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

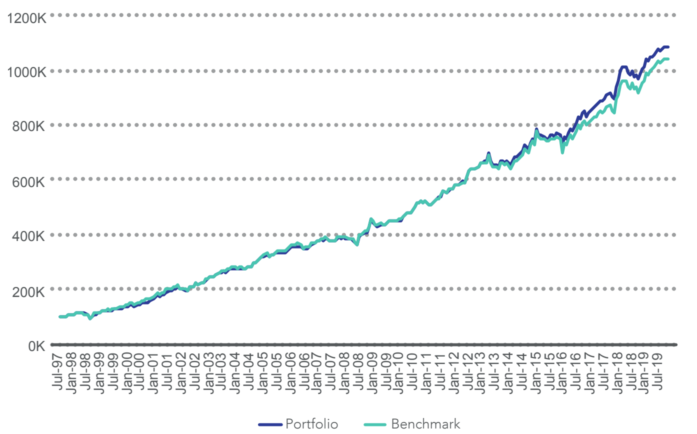
Fund category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 2.49 billion
NAV	1454.28 cents
Benchmark/Performance Fee Hurdle	BEASSA ALBI Index
Portfolio manager/s	Nishan Maharaj, Seamus Vasey & Steve Janson

	1 Year	3 Year
Total Expense Ratio	0.87%	0.87%
Fund management fee	0.74%	0.74%
Fund expenses	0.02%	0.03%
VAT	0.11%	0.11%
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 R1 081 166
Benchmark R1 040 430



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	981.2%	940.4%	40.7%
Since Launch (annualised)	11.2%	11.1%	0.2%
Latest 20 years (annualised)	11.0%	10.6%	0.4%
Latest 15 years (annualised)	8.7%	8.4%	0.4%
Latest 10 years (annualised)	9.2%	8.8%	0.4%
Latest 5 years (annualised)	7.5%	7.0%	0.5%
Latest 3 years (annualised)	9.2%	9.3%	(0.1)%
Latest 1 year	7.4%	9.0%	(1.6)%
Year to date	6.8%	8.3%	(1.5)%

	Fund
Modified Duration	6.9
Yield	10.4%

RISK STATISTICS SINCE LAUNCH

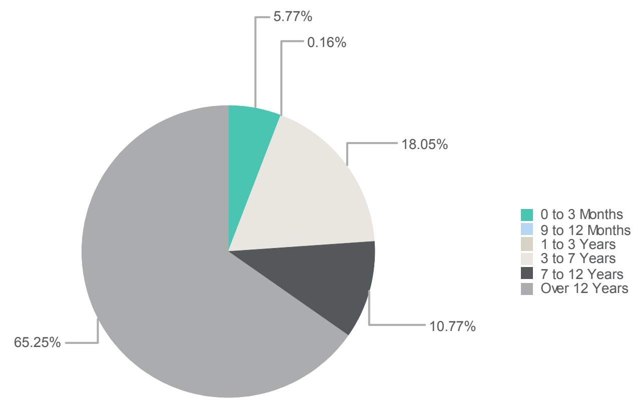
	Fund	Benchmark
Annualised Deviation	7.4%	8.4%
Sharpe Ratio	0.28	0.22
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	70.5%	70.5%

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

PORTFOLIO DETAIL

MATURITY PROFILE

As at 30 Nov 2019



MATURITY PROFILE DETAIL

Sector	30 Nov 2019
0 to 3 Months	5.8%
9 to 12 Months	0.2%
1 to 3 Years	(0.4)%
3 to 7 Years	18.1%
7 to 12 Years	10.8%
Over 12 Years	65.5%

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

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)%		**6.80%**
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%**

Please refer to page 4 of the Comprehensive Fact Sheet for important additional infomation, including change in cost disclosures.

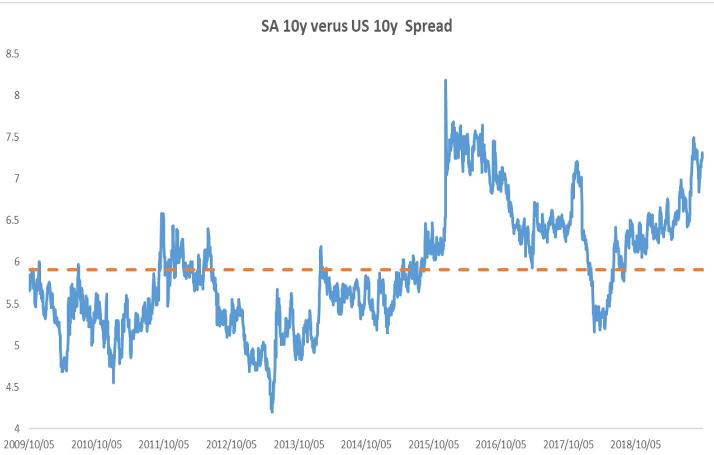
Please note that the commentary is for the retail class of the fund.

The US 10-year bond has rallied from levels of just above 2% to 1.7% over the course of the quarter, for several reasons. The escalation of tension in the US/China trade relationship has dented global confidence, which has led to a material slowdown in the global capex cycle. This has coincided with a slowing in US and global growth. Central banks have been quick to step in and engineer a softer growth landing, with the US reducing interest rates 0.5% this year and the European Central Bank (ECB) moving deposit rates further into negative territory, accompanied with a restart of their bond purchase programme. Current data emerging from Europe points to growth slowing to 1% with inflation of 1.5%, which suggests, at a bare minimum, a continuation of accommodative monetary policy in the EU. US data, more specifically the US labor market, has proved more resilient despite recent cracks starting to appear. The US Federal Reserve Board (the Fed) has adopted a wait-and-see approach to further rate easing, which is much more restrained that the market's current pricing of interest rate cuts. We are still quite far away from seeing a restart of the US quantitative easing (QE) programme, given the room to move lower on policy rates. The hope is that recent measures implemented by global central banks are enough to mitigate an aggressive growth slowdown in the months to come.

On the local front, we remain in limbo as we await the Medium-Term Budget Policy Statement at the end of October and further details on the turnaround for Eskom. Inflation continues to be well behaved and expectations are for it to average 5% over the next two to three years. Growth expectations have been continually revised down, with current expectations for a marginal pick up to 1.5% over the next two to three years. Structural reforms have been much talked about, especially in the new National Treasury economic strategy plan released by Finance Minister Tito Mboweni towards the end of the third quarter. Unfortunately, time is running out, and what's needed now is an accelerated implementation of these initiatives in order to bring back confidence and investment into the local economy.

Government finances continue to weigh heavily on the local outlook, with the fiscal deficit expected to breach -6% this year and debt/GDP to push above 60%. The major culprit of this deterioration has been the continued support needed by ailing state-owned entities (SOE's), most specifically Eskom. Without a credible plan to turn around the entity, more money will need to be poured in to allow it to meet its obligations. Herein lies the major risk for the local economy, and, while there has been an acknowledgement of the problems by government, there has been a lack of urgency in putting a credible plan in place to halt Eskom's deterioration, let alone turn the entity around. Moody's is still the only rating agency that rates SA as an investment-grade country and has provided the country with a tremendous amount of leeway over the last 12 months. Their recent statements suggest that they will continue to do so, given the reform intent of government. However, given what is currently known about the trajectory of further deterioration, if there are no substantial efforts to fix the problems the country faces, it is very likely that SA is assigned a negative outlook on our investment-grade rating by November 2019 and that SA is downgraded to sub-investment grade territory by the third quarter of 2020.

The deterioration in SA's fundamentals have been well flagged, which has allowed a risk premium to be built into SA government bonds (SAGBs), both in terms of absolute yields and the steepness of the yield curve. SA's credit spread (represented alongside by SA credit default spread) already trades at levels that are consistent with a sub-investment peer group. In addition, 10-year SAGBs trades at a spread of 7.3% over US 10-year yields, which is well above the long-term average and close to the widest levels it has been in ten years. These measures suggest a decent amount of the bad news is already being priced in by markets.



Furthermore, SAGBs look quite cheap when compared to the EM universe. In the below table, we show the nominal yields of various EM bond markets and their implied real yields (the return one would get if we strip out the effects of inflation over the next year). SA not only sits well above the EM average but also at the top of the ranking table when it comes to the relative cheapness of nominal and real yields. In a world of very-low to zero yields, SA bonds look fantastically attractive and relatively cheap to dollar-based investors.

	Nominal Yield	Implied Real Yield
South Africa	**8.92**	**4.13**
Indonesia	7.26	3.79
Brazil	7.05	3.23
Mexico	6.88	3.16
India	6.70	3.04
Russia	6.90	2.62
Malaysia	3.33	1.85
Average	5.15	1.30
China	3.14	0.73
Chile	2.53	-0.07
Israel	0.89	-0.36
Poland	1.99	-0.55
Czech Republic	1.33	-1.09
Turkey	13.15	-1.16
Hungary	1.97	-1.19

As a dollar-based investor, when one invests into a local currency bond market, there are two major risks that one takes. Firstly, you take the risk that the yield at which you are investing does not offer a sufficient margin of safety in the event of further local fundamental deterioration, and secondly you are taking the risk that the currency depreciates to such an extent that it wipes all the yield from the bonds. The first risk is something that we have discussed at length in the past. We construct a fair value for 10-year SAGBs, using the expected global risk-free rate (US 10-year), expected US/SA inflation differentials and SA credit spread. We use values of 2% (Normal US 10-year rate), 3.8% (5.3%-1.5%) [SA 10-year breakeven - US 10-year breakeven] and 3.2% (SA EMBI Plus Sovereign Spread) to arrive at a fair value of 9.03%, which is not far from current levels of 8.9%. This suggests that SAGBs trade pretty much at fair value, implying not much room in the case of further fundamental deterioration.

Dollar-based investors have the option of buying 10-year SA bonds issued in dollars, currently trading at 4.9% with no currency risk or buying a 10-year SAGB issued in rands trading at 8.9%. If you do not expect the currency to move, then it's a no-brainer to buy the bond issued in rand due to the higher yield on offer. Over the last 20 years, the rand has depreciated by an annualised rate of 4.5%. The annual depreciation would comprise inflation differentials and risk premium. Since SA runs a higher inflation rate that the US, the rand has to deteriorate by a minimum of the inflation differential in order for purchasing power between the two countries to remain unchanged. The more unpredictable part is the risk premium that needs to be priced due to the risk of deterioration in other local factors. Over the last 20 years, inflation differentials between SA and the US has been 3.4% (5.6%-2.2%: actual inflation outcomes), suggesting the risk premium should be 1% (4.4%-3.4%). Current inflation differentials sit at 3.8%, which makes the 20-year annualised depreciation of 4.4% look reasonable, as we assume a reduced risk premium going forward. This implies that a dollar-based investor can expect a return in dollars of 4.5% (8.9%-4.4%). Compared to the actual SA 10-year dollar bond, this is not that attractive, unless one has a materially positive view on the currency. It would also explain why the local SA bond market has experienced outflows this last year of approximately R8 billion. This is a big turnaround from the R20 billion of inflows we were sitting with at the end of the first quarter of 2019.

SA inflation will remain benign and growth subdued, which would, at worse, allow policy rates to remain on hold. 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. The global environment remains supportive for EM and SA, especially given the renewed monetary policy easing embarked on by global central banks. However, SAGBs trade at fair value at best and 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.

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

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