

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

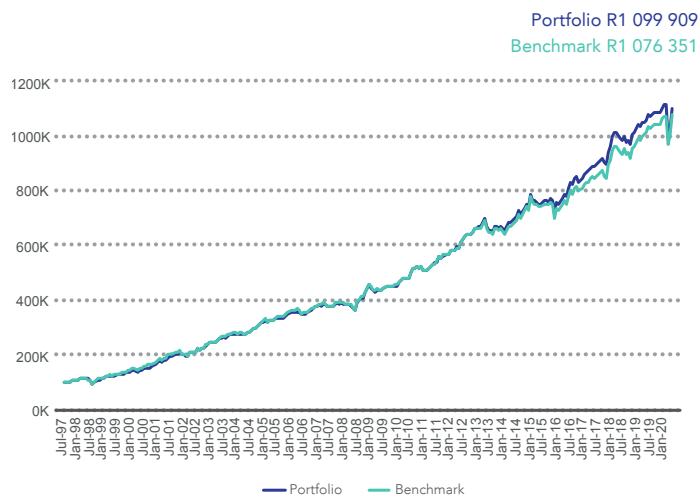
CLASS R as at 31 May 2020

Fund category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 3.23 billion
NAV	1411.89 cents
Benchmark/Performance	BEASSA ALBI Index
Fee Hurdle	
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%	0.02%
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)



PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	999.9%	976.4%	23.6%
Since Launch (annualised)	11.1%	11.0%	0.1%
Latest 20 years (annualised)	10.8%	10.4%	0.4%
Latest 15 years (annualised)	8.5%	8.3%	0.2%
Latest 10 years (annualised)	8.7%	8.5%	0.2%
Latest 5 years (annualised)	7.9%	7.7%	0.2%
Latest 3 years (annualised)	7.3%	8.2%	(0.9)%
Latest 1 year	4.1%	6.4%	(2.4)%
Year to date	0.1%	1.6%	(1.5)%

Fund

Modified Duration	6.7
Yield	9.3%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.8%	8.7%
Sharpe Ratio	0.25	0.21
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	70.4%	70.4%

Fund

Date Range

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

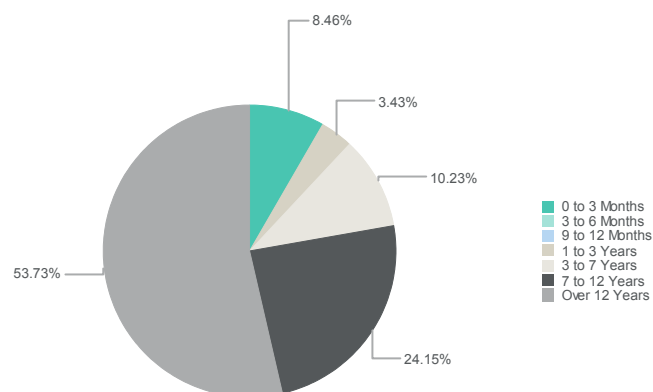
MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2020	1.19%	(0.09)%	(10.81)%	3.61%	7.11%								0.08%
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%	8.54%
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%	7.69%

PORTFOLIO DETAIL

MATURITY PROFILE

As at 31 May 2020



MATURITY PROFILE DETAIL

Sector	31 May 2020
0 to 3 Months	8.8%
3 to 6 Months	(4.2)%
9 to 12 Months	0.0%
1 to 3 Years	3.6%
3 to 7 Years	10.7%
7 to 12 Years	25.2%
Over 12 Years	56.0%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
31 Mar 2020	01 Apr 2020	61.21	61.21	0.00
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

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

From mid-February 2020, the world experienced what can only be described as a near cataclysmic shock. The double crisis of a global oil price war and the rapid spread of Covid-19 across continents has seen shockwaves of fear and panic penetrating geographical and generational boundaries. Governments across the globe have reacted by enforcing either social distancing or more severe isolation through nationwide lockdowns. This is done in order to flatten the curve of infections in a bid to prevent healthcare systems from being overwhelmed and, hopefully, allow the pandemic to be better managed. The risk, they fear, is that it escalates into a global catastrophe. The key unknowns in this global pandemic are how quickly the virus burns out (if at all), whether herd immunity will develop, the most effective treatment for Covid-19, and when (if at all) a vaccine will be ready. Financial markets have reacted fiercely to the economic uncertainty created by the required lockdowns. Over the last quarter, global stock markets are down 20%, most emerging market (EM) currencies are down between 15% and 20%, global credit markets are down at least 7%, and global listed property is down 30%. The magnitude of these moves has not been seen since the Global Financial Crisis (GFC) of 2008/2009, and, importantly, these moves have all occurred in a much shorter time period.

South African (SA) assets reacted in lock step with the global risk aversion sell-off. However, SA government bonds (SAGBs) have been exceptionally volatile during this period and sold off materially. Next to cash, government bonds are the most liquid part of a portfolio. In times of crises, when cash is often required to meet margin calls on less liquid assets and to satisfy redemptions, government bonds are used as the natural funding source. The aggressiveness of the sell-off in global risk markets and the outflows globally from EM bond funds have meant that foreign investors into the local bond market have had to sell their holdings for this exact purpose. This created the first leg of the sell-off in our bond market. In addition, we saw the liquidity in the interbank market evaporate, as local banks (the sole intermediaries of SAGBs) pulled back on risk-taking due to reduced liquidity conditions. In times like these, banks prefer to limit the cash lent in the interbank market and utilised in trading activities in financial markets, primarily to support their corporate and individual customers who may have funding and operational needs. This propagated the irrational market behaviour we have witnessed over the past few weeks. The SARB played a crucial role by stepping in and injecting liquidity into the market, restoring some calm. This included offering term repos on SAGBs and buying SAGBs in the secondary market.

Moody's Investor Service downgraded SA to subinvestment grade on 27 March 2020, a day after we went into lockdown. This is not a new development and had been well flagged by the market for a few years. As suggested in previous articles, offshore investors have been decreasing their holdings of SAGBs for some time now, and the SA sovereign spread already trades at levels consistent with subinvestment-grade debt. Additionally, we have seen the SA risk premium steadily increase, suggesting that, even before the onset of Covid-19, the downgrade was already significantly priced in. The one thing that has changed is that market volatility has increased and liquidity in the secondary bond market has decreased. This suggests that the mandated selling of SAGBs might result in a more significant move than initially anticipated. However, the FTSE, which administers the World Government Bond Index (WGBI), has allowed up to the end of April for funds to rebalance, which won't stop the selling but will allow it to be more gradual (previously, funds would have had to rebalance by the end of March). In addition, with the SARB announcing its willingness to purchase SAGBs in the secondary market, the effect of this will be dampened. The more important question is whether this weakness represents a great buying opportunity, or whether fundamentals have shifted to such an extent that a more significant risk premium for SAGBs is justified. 10-year SAGBs currently trade at a yield of 11% compared to cash, which we expect to be around 4.25% by the end of this year. The spread between SAGBs and cash is at the widest it has been since the start of inflation targeting (2001) and implies that 10-year SAGBs can sell off 125bps over the next year before they start to underperform cash. In addition, with inflation expected to average close to 4% over the next two years, the implied real yield on the 10-year SAGB is close to 7%.

Global policy rates have moved to zero and are expected to remain there for some time to come. Several developed market central banks have restarted their quantitative easing (QE) programmes on a scale larger than those implemented during the GFC. The level of monetary policy accommodation and support that has been pushed into the global economy is unprecedented. Global developed market bonds either trade in deeply negative territory or very close to zero.

10-year SAGBs now trade in excess of 10% above developed market bonds. EM local currency bonds have all moved weaker during the crisis, but SA remains the cheapest real yield and tradeable nominal yield among its peers. The SARB's commitment to keep liquidity in the system and the National Treasury's adjustment to the funding profile over this period have seen the yield curve flatten quite aggressively past 20-year maturity. In running our total return calculations, we believe that bonds in the 10- to 12-year bucket offer the most value.

Globally, credit spreads have blown out. SA's sovereign credit spread was already trading at a level consistent with other subinvestment grade countries, but is now trading 100 basis points (bps) wider than even the Subinvestment Grade Index. Even if one assumes this is correct, the absolute level of sovereign credit spreads is very much elevated, suggesting potential room for compression.

In constructing a fair value estimate for 10-year SAGBs, we use the global risk-free rate (the US 10-year Treasury Bond), the inflation differential between SA and the US, and the SA sovereign credit spread. We believe 10-year SAGBs are trading at levels 120-220bps above fair value.

Inflation-linked bonds (ILBs) have sold off, both in sympathy with nominal bonds and due to lower inflation expectations. However, given the higher modified duration of most of these bonds, they have underperformed their nominal counterparts. In five- and 10-year inflation-linked bonds, real yields are close to 6%, with breakeven inflation well below 5%. We consider these to be very attractive and they warrant a healthy allocation in our portfolios.

Fundamentally, we believe that SA corporate credit spreads should already have been under pressure, given the poor economic fundamentals of the country and the clear evidence that the probability of default for most borrowers is on the rise. A clear indication of this was shown in the rising credit loss ratios reported by all our local banks during their last updates. However, there has been a drop in corporate issuance due to the poor growth backdrop and the lack of the funding needed by banks and corporates (due to the lack of investment in the country). Leading into the crisis, with issuance lower and a reach for yield in the local market spurred by the reduction in the return expectations of many other asset classes, local credit spreads compressed aggressively.

The economic fallout of the Covid-19 crisis will add further stress to the balance sheets of all SA companies, hence lowering their credit quality. As such, it is reasonable to expect a widening of credit spreads just based on the fundamental deterioration. Add to this the repricing we are seeing in global credit markets, the drop in risk appetite, an acceleration of redemptions from fixed income funds in lieu of cash and a tightening of credit spreads over the last 12 months, and one can easily see that this is a market that needs sobering.

Coronation's bottom-up, valuation-driven credit research process takes both fundamentals and liquidity into consideration in its assessment of risk and return. This ensures that we build a level of conservatism into our pricing expectations to deal with the illiquid nature of certain assets. In addition, liquidity plays a vital role in our portfolio construction process. Over the last 18 months, we have endeavoured to reduce our exposure to listed credit by reducing our exposure to new-style bank subordinate debt (AT1 and AT2), certain bank senior issues and not actively purchasing new issues in the primary market. Our current holdings of credit instruments are shorter-dated in nature, predominantly issued by the big four banks and are listed on the JSE, making them tradeable in some part.

Credit spreads globally have widened tremendously. The credit spreads of SA companies that issue offshore debt have widened. The Sasol two-year bond trades at a yield of 22% in US dollars, and Standard Bank and First Rand Limited Tier 2 sub-debt bonds now trade at yields of 10% in US dollars. In the local market, however, these bonds have not re-marked at all, with Sasol two-year debt still marked at 134bps over Jibar (6.8% all-in yield) and the banks' four-year sub-debt still marked at 250bps over Jibar (8.1% all-in yield). These bonds are generally illiquid and are held by local institutions. We expect them to only remark in the secondary market when they are sold. We view it as just a matter of time before we see a significant remark in these debt instruments as redemptions intensify and forced selling pushes spreads to levels like those seen in the offshore market.

We view 10-year SAGBs as the most attractive asset in the fixed income suite, with five- to 10-year ILBs coming in a close second. Credit markets are very unattractive, and we would wait for a significant widening in credit spreads before allocating more capital. Given the compression in the 20- to 25-year area of the curve relative to the 10- to 12-year area and risks from further fiscal deterioration, we are switching our longer-end bond (20- to 25-year area) exposure into the 12-year area of the curve. We would look to increase duration into weakness but are tempered by current volatility and pending outflows as a result of WGBI expulsion. Therefore, we would be more measured in our approach to adding duration.

ILBs are attractive, and we would look to further increase our holdings in the five- to 10-year area into weakness. These instruments carry a higher modified duration and are more illiquid than nominal government bonds. As such, we will be even more cautious in our approach to adding exposure.

We will not be adding any credit to our portfolios until we view spreads as cheap relative to our fundamental assessment, and would instead use the little credit that we have, given that it is shorter-dated, as a funding source for the other more attractive asset classes.

The key lesson from 2019 was not to underestimate the degree to which lower economic growth hurts property companies. This time, the problems are more severe, dividends could be suspended, and a 30% yield could be zero.

We remain committed to only adding assets to our clients' portfolios that we believe offer a sufficient margin of safety and are adequately priced for the underlying risk. We are constantly on the lookout for valuation dislocations relative to fundamentals, which we believe will benefit our client portfolios over the longer term. In this volatile period, asset price behaviour tends to be irrational, which will adversely affect short-term performance. It is during times like these that once-in-a-lifetime opportunities present themselves, and one has to stand ready to act with conviction to take advantage of these opportunities.

[The April edition of Corospondent will cover the past quarter's events in more detail in our regular Bond Outlook.]

Portfolio managers
Nishan Maharaj, Steve Janson and Seamus Vasey
 as at 31 March 2020

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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