

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 will typically not exceed 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

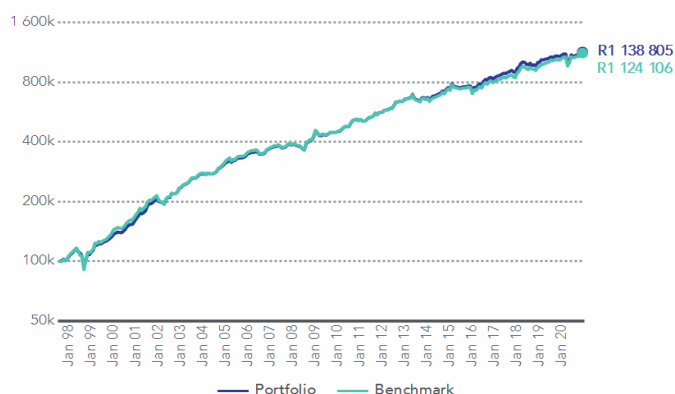
CLASS R as at 30 November 2020

Fund category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 3.23 billion
NAV	1399.81 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	0.86%	0.87%
Fund expenses	0.73%	0.74%
VAT	0.01%	0.02%
Transaction costs (inc. VAT)	0.11%	0.11%
Total Investment Charge	0.00%	0.00%
	0.86%	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)	1038.8%	1024.1%	14.7%
Since Launch (annualised)	11.0%	10.9%	0.1%
Latest 20 years (annualised)	10.3%	10.0%	0.3%
Latest 15 years (annualised)	8.3%	8.1%	0.2%
Latest 10 years (annualised)	8.3%	8.2%	0.1%
Latest 5 years (annualised)	8.3%	8.4%	(0.1)%
Latest 3 years (annualised)	8.3%	10.0%	(1.7)%
Latest 1 year	5.3%	8.0%	(2.7)%
Year to date	3.6%	6.1%	(2.5)%

Fund

Modified Duration	6.6
Yield	9.0%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.8%	8.6%
Sharpe Ratio	0.25	0.22
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%	(1.43)%	0.29%	1.09%	(0.61)%	0.55%	3.68%		3.61%
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

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	78.9%
State Owned Entities	1.4%
Banks and Insurers: NCDs and Deposits	2.9%
Banks: Senior Debt	7.0%
Banks: Subordinate Debt (<12m)	0.0%
Banks: Subordinate Debt (>12m)	5.3%
Insurers	0.4%
Other corporates	1.7%
REITS	1.7%
Total	100.0%

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic of South Africa Government Bonds	76.6%
Nedbank Ltd	6.8%
FirstRand Limited	5.5%
Standard Bank of SA Ltd	2.4%
Growthpoint Properties Ltd	1.7%

MATURITY PROFILE DETAIL

Sector	30 Nov 2020
0 to 3 Months	4.3%
3 to 6 Months	1.5%
6 to 9 Months	0.0%
9 to 12 Months	0.0%
1 to 3 Years	4.2%
3 to 7 Years	7.8%
7 to 12 Years	18.9%
Over 12 Years	63.2%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
30 Sep 2020	01 Oct 2020	59.49	59.49	0.00
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

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

The first case of Covid-19 was detected in December 2019, but there was little to suggest how this little microbe would change human history. The world went into differing categories of lockdown to arrest the spread of the virus and allow time for the expansion of healthcare capacity. Six months later, close to 35 million people have been infected, just over a million souls have been laid to rest and the toll on the global economy is still uncertain. Many countries around the world eased lockdown measures as the levels of infection started to recede, however, there is now a rise in second waves of infection, which has heightened uncertainty. The combination of accommodative monetary policy and fiscal stimulus, the likes of which have never been seen before, helped to soften the recessionary effects of lockdown and keep markets well buoyed. Levels of volatility will remain elevated, due to both the second wave of infections and upcoming geopolitical events (the finalisation of Brexit and the US presidential elections), which have placed big question marks on current valuations.

A precarious position

South Africa was precariously placed going into Covid-19, which meant the risk premium in local assets was already lofty. Despite South Africa's early move into lockdown, the poor implementation of policy decisions has highlighted the country's precarious financial situation. Risk premiums increased even further as foreign investors dumped South African assets at a ferocious pace. Local bonds were arguably the most vulnerable, since at the heart of South Africa's problems lay large amounts of debt that needed to be serviced at double-digit yields, amidst very subdued growth. The All Bond Index (ALBI) is up 3.6% over the last 12 months (1.5% over the last quarter), but is still running behind cash (+5.6% over the last year). This performance was due to the poor showing from bonds with a maturity of greater than seven years. Shorter dated bonds were anchored by the 300 basis point (bp) reduction in the repo rate over the last six months. Only inflation-linked bonds (ILBs) have delivered worse performance, down 2% over the last 12 months (up 1.2% over the last quarter). The total returns of South African bonds (both ILB and nominal) are even poorer when converted to US dollars (approximately -7% for the ALBI in US dollars) and compared to global bonds (6.8% World Government Bond Index return in US dollars), further emphasising how much local bonds have fallen out of favour.

South Africa's fiscal problem is the culmination of many years of poor policy choices. On the expenditure side, the wages of government employees have enjoyed real growth of 3% per annum since 2009, while the economy has only averaged real growth of 1.2% over the same period. This has meant tax revenue has not kept pace, forcing expenditure to be reduced in other, more productive areas. State-owned enterprises (SOEs) have further crowded out productive expenditure due to their continuous demand for government support, and Eskom remains the biggest risk to the economy. Years of mismanagement have resulted in an unsustainable debt load and unreliable energy supply that place added pressure on the fiscus and reduce the long-term growth potential of the local economy. Covid-19 has placed a further burden on government finances, as tax revenue will drop by c.R300 billion, which will force hard decisions to be made about further expenditure cuts and other reforms. Interest service costs will skyrocket to around 25% of tax revenue over the next three years, which will place South Africa on the precipice of a debt trap. Markets have lost faith in policymakers' ability to right the situation. We need to see tangible steps in place that detail how the bloated wage bill will be reduced, how Eskom will be put on a path to operational and financial stability, and how growth can be reaccelerated. Further disappointments include government's attachment to the beleaguered South African Airways and the scale of misappropriation of government tenders during the Covid-19 crisis.

Some rays of hope

In the past month, there has been some good news. The National Energy Regulator of South Africa has approved a plan to tender almost 12 gigawatts (GW) of power generation capacity, predominantly from renewables, and there seems to be consensus on a plan between labour, government and business that will address some of Eskom's problems. In addition, the Independent Communications Authority of South Africa has finally announced that high-demand spectrum will be auctioned this fiscal year, which will introduce between R8 billion and R12 billion of revenue. Another encouraging sign is that there have been some high-profile arrests on the back of the ongoing graft investigations.

South Africa faces yet another watershed budget at the end of October when Finance Minister Tito Mboweni will provide details on how he plans to enact R230 billion worth of savings over the next three years to take South Africa to a primary surplus and pull us back from the brink of a debt trap.

Local bond outlook

Despite the poor fundamental overhang, the valuation of South African bonds has adjusted to embed a significant risk premium. In previous publications, we have gone into detail showing the risk premium embedded in South African government bonds (SAGBs) relative to their emerging market peers, both from a pick-up relative to developed market bond yields and an implied real rate perspective. Figure 1 shows the amount bond yields can move before they break even relative to cash. At 100bps - 200bps breakeven, these are extremely attractive. In addition, bonds with a maturity of greater than 10 years offer the most value from this perspective. In almost all cases

where a country falls into a debt trap, the restructuring of debt through a haircut is the first avenue pursued, and these haircuts can vary between 15% and 60%. In the last column in the table, we take a scenario where after four years, South African debt is haircut by 50% and show the total return of the various bonds including the haircut up until that point. Due to the higher yields and low cash prices on offer in the long end of the bond curve, once again bonds with a maturity of greater than 10 years outperform, further supporting keeping duration allocations focused in this area of the curve.

Figure 1: Average breakeven rates

Bond	Maturity	Yield	1y B/E (Cash @ 4%)	2y B/E (Cash @ 5.25%)	3y B/E (Cash @ 6.25%)	Total Return (50% Haircut)
R186	21-Dec-26	7.20%	0.82%	1.23%	0.82%	-12.68%
R203	31-Jan-30	9.39%	0.96%	1.68%	2.02%	-5.80%
R203	31-Mar-32	10.39%	1.02%	1.83%	2.32%	-3.36%
R203	28-Feb-35	11.18%	1.06%	1.93%	2.51%	-1.82%
R204	31-Jan-40	11.59%	1.03%	1.89%	2.46%	0.06%
R204	31-Jan-44	11.63%	1.00%	1.82%	2.36%	1.46%
Average Break-Even			0.98%	1.73%	2.08%	

Source: Coronation

ILBs have been a poor performer as an asset class, but as with the ALBI, the ILB bond curve is weighted heavily towards longer dated bonds. Over the last 12 months, ILBs out to seven years have produced decent returns relative to cash, offer an attractive pick-up to their nominal bond counterparts and still provide inherent protection against higher inflation. Furthermore, the one-year forward real policy rate (the difference between the repo rate and one-year forward inflation) sits at -1%, which acts as a very strong anchor for short-dated real yields. The risk, which we believe to be negligible at this point, is that the South African Reserve Bank (SARB) moves the real policy rate into a marginally positive area.

Listed credit valuations seem extended

The listed credit market was not spared during the Covid-19 sell-off, however, the recovery in listed credit spreads has far exceeded the quality of the underlying fundamentals. Once again, the listed corporate market is suffering from a supply/demand imbalance and the primary credit markets have dried up for most of the issuers in the market. Since the SARB relaxed prudential capital buffer ratios for banks, they can now afford to refinance upcoming debt maturities for corporates without forcing them to go to debt capital markets. At the same time, the risk/return characteristics of other asset classes have turned less favourable, making listed credit, with its reduced return volatility, a seemingly attractive opportunity set. Unlike investing in an equity, where one can double or triple one's initial investment, when one invests in a credit, the best one can hope for is to receive one's coupon payments on time and one's capital back at the end. The return profile is therefore discreet; that is, one continues to earn a steady interest rate (coupon) until maturity or default. Even though underlying fundamentals might be deteriorating, the return of the South African corporate credit market has remained steady, predominantly due to there being large holders of individual issues, hence limiting secondary market activity and price discovery. This reduced volatility hides the underlying risk within the sector currently. In addition, the inclusion of structured products in a portfolio can also be used to reduce the volatility of returns of the underlying credit exposures due to inefficiencies in the mark-to-market process for structured products.

Bonds in your portfolio

In summary, South Africa is on the brink of a debt trap due to years of poor policy choices that have been exacerbated by the effects of the Covid-19 crisis. At the heart of the country's problems lies a large debt load that is being financed at exceptionally high levels of interest and ailing SOEs, key among them being Eskom. Policy choices are moving in the right direction, however, the political will to implement appears sluggish.

However, the valuation of SAGBs does embed a significant amount of risk premium, commensurate with the underlying risk, if not more. This valuation is specifically attractive in the longer end of the bond curve due to high yields and low cash prices. ILBs in the front end of the curve (greater than seven years) offer an attractive pick-up relative to their nominal counterparts with inherent inflation protection, while listed credit is unattractive given expensive valuations. We believe bond portfolios should have a neutral to overweight position to SAGBs in the longer end of the curve, an allocation to ILBs in the short end of the curve and low (if any) allocation to listed credit.

Portfolio managers

Nishan Maharaj, Steve Janson and Seamus Vasey
as at 30 September 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. The asset allocation by issuer type and top 5 issuer exposures are not reflected on a look-through basis. 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 2020 (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.