CORONATION BOND FUND

Fund Information as at 31 March 2021

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 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

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

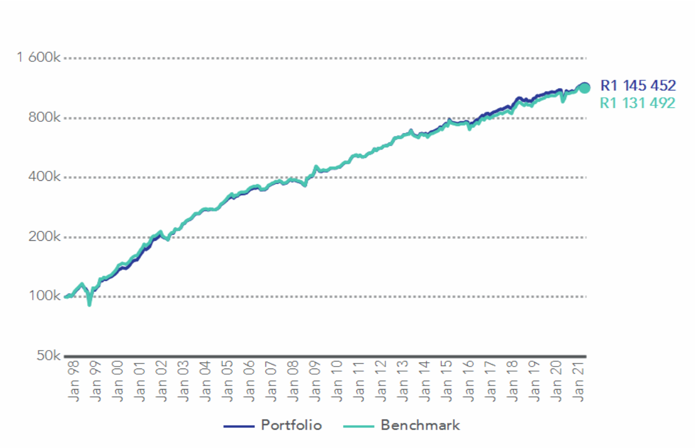
Launch Date	1 August 1997
Fund Class	R
Benchmark	BEASSA ALBI Index
Fund Category	South African – Interest Bearing – Variable Term
Regulation 28	Does not comply
Income Distribution	Semi-annually (March & September)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORSPBD
ISIN Code	ZAE000019790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

Fund category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 3.19 billion
NAV	1407.98 cents
Benchmark/Performance Fee Hurdle	BEASSA ALBI Index
Portfolio manager/s	Nishan Maharaj, Seamus Vasey & Steve Janson

	1 Year	3 Year
Total Expense Ratio	0.86%	0.86%
Fund management fee	0.73%	0.74%
Fund expenses	0.01%	0.02%
VAT	0.11%	0.11%
Transaction costs (inc. VAT)	0.00%	0.00%
Total Investment Charge	0.86%	0.86%

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)	1045.5%	1031.5%	14.0%
Since Launch (annualised)	10.9%	10.8%	0.1%
Latest 20 years (annualised)	9.9%	9.6%	0.3%
Latest 15 years (annualised)	8.1%	7.9%	0.2%
Latest 10 years (annualised)	8.4%	8.2%	0.1%
Latest 5 years (annualised)	8.2%	8.7%	(0.5)%
Latest 3 years (annualised)	4.2%	5.5%	(1.3)%
Latest 1 year	15.6%	17.0%	(1.4)%
Year to date	(1.4)%	(1.7)%	0.3%

	Fund
Modified Duration	6.7
Yield	9.4%

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

PORTFOLIO DETAIL

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	82.4%
State Owned Entities	1.4%
Banks and Insurers: NCDs and Deposits	2.8%
Banks: Senior Debt	6.6%
Banks: Subordinate Debt (<12m)	0.0%
Banks: Subordinate Debt (>12m)	4.0%
Insurers	0.4%
Other corporates	0.6%
REITS	1.7%
Total	100.0%

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic of South Africa Government Bonds	81.0%
Nedbank Ltd	4.4%
FirstRand Limited	4.3%
Standard Bank of SA Ltd	2.4%
Growthpoint Properties Ltd	1.7%

MATURITY PROFILE DETAIL

Sector	31 Mar 2021
0 to 3 Months	2.9%
3 to 6 Months	0.0%
6 to 9 Months	0.0%
9 to 12 Months	0.6%
1 to 3 Years	5.5%
3 to 7 Years	7.0%
7 to 12 Years	20.4%
Over 12 Years	63.6%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
31 Mar 2021	01 Apr 2021	59.35	59.35	0.00
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

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2021	0.83%	1.00%	(3.20)%										**(1.43)%**
Fund 2020	1.19%	(0.09)%	(10.81)%	3.61%	7.11%	(1.43)%	0.29%	1.09%	(0.61)%	0.55%	3.68%	2.04%	**5.73%**
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%**

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

Progress is rarely made in a straight line and there are always bumps in the road, but, ultimately, what matters is the direction you are heading in. It is now just over a year since the World Health Organisation declared Covid-19 to be a global pandemic and the world went into lockdown. The difference now, however, is that we have several viable vaccines that will help stave off serious infection, lessen the pressure on healthcare systems and, hopefully, return our lives to some version of normality. There are concerns that new variants might reduce the efficacy of vaccines; that the vaccines might not be rolled out expeditiously; and that second, third and fourth waves will delay the global recovery. Ultimately, there is light at the end of the tunnel, and it doesn't look like another train!

South Africa remains precariously placed in the global recovery due to its stretched public finances, a glacial pace of reform implementation and the leisurely rollout of its vaccination program. Following a strong start to the year, South African government bonds (SAGBs) gave back a portion of their initial gains due to concerns that the large amount of global fiscal and monetary stimulus would stoke inflation, hence forcing a quicker normalisation in policy rates. The benchmark 10-year SAGB rallied to 8.75% by the beginning of February, but sold off by over 100 basis points (bps) by the end of the quarter, ending at 9.89%. This resulted in the All Bond Index (ALBI) returning -1.7% over the quarter, which was anchored by the underperformance of the 7- to 12-year area of the curve. SAGB yield movements were not dissimilar to the experience in many emerging markets around the world, as a reaction to c.80bps sell-off in US 10-year yields. Conversely, South African inflation-linked bonds (ILBs) produced a return of 4.6% in the first quarter as real yields held onto their gains since the beginning of this year. Due to March 2020 being the peak of the Covid-19 crisis in financial markets, the one-year performance of SAGB's and ILBs look spectacular at 17% and 16.7%, respectively.

Risks proliferate and remain high

South Africa's budget speech in February was an important road marker on South Africa's recovery path. Following better-than-expected tax revenue receipts, the National Treasury presented a picture of public finances that was much better than the October 2020 Medium-Term Budget Policy Statement but still not indicative of debt stabilisation. It was very encouraging that the tax windfall was not used to increase expenditure in other areas but instead used to reduce the borrowing requirement over the forecast period. This resulted in a reduction in weekly nominal fixed-rate issuance by c.30%, which was welcomed by markets and resulted in the relative outperformance of the 12-year plus area of the curve. However, implementation risk remains high as all the expenditure consolidation is focused on a three public sector wage freeze, which has already been rebuked by public sector unions.

In addition, State-owned enterprises (SOES) and other local municipalities are a further risk to expenditure given their poor health going into the Covid-19 crisis. Long-term austerity is not palatable in South Africa, given the size of the expenditure adjustment needed to right the ship. To keep from sinking, South Africa needs to increase its potential growth rate by accelerating its reform process and bringing in the private sector.

There are early signs that the private sector is starting to contribute to investment but, for this to be sustained, policy needs to be transparent and stable. It is also essential that previous perpetrators of corruption are brought to justice to show that there are real consequences for malfeasance. Unfortunately, given the country's poor track record, investor confidence remains depressed, which is abundantly reflected in the elevated level of bond yields and the steepness of the yield curve.

Inflation is the key needle in the dial

The positive showing in the February budget should have resulted in an extensive rally and flattening in the South African bond curve. However, due to the sell-off in global rates, this was cut short and reversed. In January 2021, short-term inflation expectations in the US, as reflected by market implied breakeven inflation expectations (difference between US nominal and ILB yields), moved materially above 2%, peaking at 4% for one-year forward inflation and 2.5% for five-year forward inflation. Now, across all maturities, this sits at around 2.3% to 2.5%, which means that the market expects inflation in the US to average above the 2% average inflation target set by the Federal Reserve Board (Fed). This change in inflation expectations was driven by the Fed's change to average inflation targeting (i.e. targeting average inflation rather than aiming to keep it at a target point); the unprecedented level of monetary policy stimulus (zero base rates and the bond-buying programme); and increased fiscal stimulus (approval of the Biden $1.9 trillion support package and the proposal of a further $2.2 trillion infrastructure spending package). The question facing many emerging market investors is if this repricing is sufficient and can emerging markets stomach these higher levels of US rates.

During 2013, financial markets experienced a similar magnitude of repricing in global bond yields, which propelled emerging market and South African bonds yields materially higher. The reason for this was that, fundamentally, emerging markets and South Africa were much more vulnerable to capital and portfolio flows, given their large external funding requirements (reflected by the current account deficit), foreign ownership/involvement in local emerging economy bond markets were high, inflation was uncomfortably high, and valuations were full, if not expensive.

Navigating choppy waters

South Africa specifically is much better placed from an economic cycle and valuation perspective compared to the 2013 taper tantrum. US rates have had a significant reprice and, although the absolute level of 10-year rates remain quite low, the forward-looking expectations built into those rates suggest that (barring any surprise shocks) they are adequately priced. SAGB's still trade relatively cheap given that they still trade at multiples of cash, are among the highest yields in the emerging markets universe (both from a real and nominal perspective), the yield curve remains steep and their embedded risk premium remains high due to the underlying fiscal risks. Although fiscal risks remain elevated, recent policy actions by the National Treasury and government have managed to buy us more time to right the ship, which makes the yields on offer even more ripe.

ILBs provide diversity to a portfolio given their low long-term correlation to nominal bonds (c. 50%) and offer protection against higher-than-expected inflation given that their outstanding principal grows in line with inflation. Despite the longer maturity of ILBs trading at high real yields, these yields are not attractive compared to fixed-rate nominal bonds and have a low breakeven to cash because of their high modified duration (capital placed at risk to interest rate movements) making them an unattractive investment. However, the short-dated ILB (four years) provides an attractive opportunity, given its greater than 100bps yield pick-up relative to its equivalent nominal bond and, hence, its higher breakeven to cash. We view this as an attractive opportunity to invest in an instrument that provides diversity and an attractive yield pick-up.

Credit spreads in South Africa are back to levels seen pre-Covid-19. This suggests that credit fundamentals are as sound if not better post the pandemic fall out. Unfortunately, this is not the case and the contraction we have seen recently in credit spreads just mimics the global phenomenon of credit spread compression. Global corporate issuance levels are higher than they have ever been, but any yield pickup is being swallowed up since government bond yields are at zero and central banks are even buying corporate bonds in the secondary market. Locally, the situation is very different, as government bond yields remain elevated (above corporate bonds even), there is no buying of corporate bonds by the central bank and net issuance of corporate debt is declining as companies have pulled back on new investment activities. This reduced net issuance combined with the large amount of liquidity is the major reason for the compression of credit spreads. Underlying fundamentals remain negative, as bank credit loss ratios (Figure 7) are elevated, suggesting underlying stress in lending books and, hence, corporate South Africa. As bottom-up, valuation driven investors, we do not believe that the current levels of credit spreads offer sufficient compensation for the underlying risk and hence we would steer clear of corporate exposure at current spread levels.

Finding the balance

South Africa remains in a delicate balancing act. In the short term, inflation will remain under control and growth will pick up, supporting a cyclically better economic outcome. However, the fiscal accounts are problematic given the high levels of debt. While the cyclically better economic outcomes have provided some breathing room, there needs to be an acceleration in growth-enhancing reforms, more emphasis on reviving private sector confidence to encourage investment, and no deviation from current expenditure plans. The recent move higher in developed market bond yields has sparked concerns of a replay of the 2013 taper tantrum, however, South African bond valuations are much more generous now with a much-reduced external funding requirement. We view SAGBs as an attractive investment opportunity and would still advocate an overweight position relative to benchmark for a bond fund. In addition, we would also allocate to four-year ILBs and steer clear of corporate credit spreads at current levels.

Portfolio managers

Nishan Maharaj, Steve Janson and Seamus Vasey

as at 31 March 2021

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

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