CORONATION BOND FUND

Fund Information as at 30 November 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 three to five years.

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

CORONATION BOND FUND

CORONATION
TRUST IS EARNED™

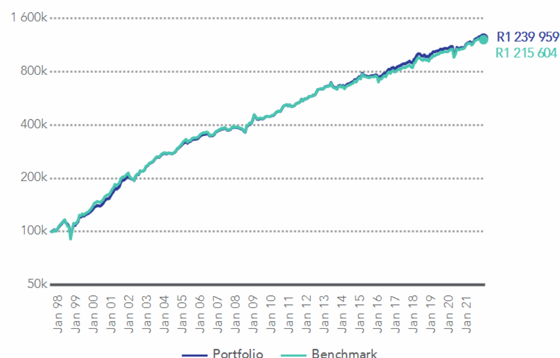
CLASS R as at 30 November 2021

Fund category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 3.36 billion
NAV	1399.60 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%	0.01%
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)	1140.0%	1115.6%	24.4%
Since Launch (annualised)	10.9%	10.8%	0.1%
Latest 20 years (annualised)	9.4%	9.1%	0.3%
Latest 15 years (annualised)	8.4%	8.2%	0.2%
Latest 10 years (annualised)	8.2%	8.0%	0.2%
Latest 5 years (annualised)	8.3%	8.8%	(0.5)%
Latest 3 years (annualised)	7.2%	8.4%	(1.2)%
Latest 1 year	8.9%	8.1%	0.7%
Year to date	6.7%	5.6%	1.1%

	Fund
Modified Duration	6.7
Yield	9.5%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.7%	8.5%
Sharpe Ratio	0.27	0.24
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

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	87.3%
State Owned Entities	0.6%
Banks and Insurers: NCDs and Deposits	3.7%
Banks: Senior Debt	4.3%
Banks: Subordinate Debt (<12m)	0.0%
Banks: Subordinate Debt (>12m)	3.4%
Insurers	0.0%
Other corporates	0.1%
REITS	2.4%
Other (Currency Futures)	(1.8)%
Total	100.0%

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic of South Africa Government Bonds	85.8%
FirstRand Limited	3.3%
Nedbank Ltd	2.6%
Standard Bank of SA Ltd	1.4%
Growthpoint Properties Ltd	1.3%

MATURITY PROFILE DETAIL

Sector	30 Nov 2021
0 to 3 Months	2.2%
3 to 6 Months	(0.2)%
1 to 3 Years	4.7%
3 to 7 Years	3.5%
7 to 12 Years	33.7%
Over 12 Years	56.1%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
30 Sep 2021	01 Oct 2021	60.09	60.09	0.00
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

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)%	1.83%	4.20%	1.48%	0.68%	1.83%	(2.29)%	(0.20)%	0.54%		**6.70%**
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%**
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%**
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%	**11.31%**

Issue date: 2021/12/09

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

CORONATION BOND FUND

Quarterly Portfolio Manager Commentary

CORONATION

TRUST IS EARNED™

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

South Africa (SA) was among the worst performers within emerging markets, as the rand lost 5.2% against the dollar (two thirds of which was in September alone) and the benchmark bond widened by 40 basis points (bps) over the quarter (close to 50bps wider from the start of September). The FTSE/JSE All Bond Index was down 2.1% over September, bringing its return for the quarter to 0.4% and 12.5% over the last 12 months. Inflation-linked bonds (ILBs) performed significantly better as real yields held despite the selloff in nominal bonds, putting their return for the quarter at 2.0% and 15.8% over the last 12 months. Global bond yields have also seen a significant move wider, with the FTSE World Government Bond Index down 2.3% over the month, led primarily by the move wider in US bonds yields (up 50bps from their quarter lows). The pace of the selloff has, in part, also contributed to the weaker risk backdrop for emerging markets.

Locally, monetary policy is in the enviable position of being supportive of SA's growth recovery. Most major developing economies have already started (in some cases they are close to finishing) their rate normalisation process. SA government bonds (SAGBs) are still the most attractive emerging market bonds due to their high implied real yield, but SA policy rates remain quite negative. This has raised concerns about the SA Reserve Bank (SARB) falling behind the inflation curve and has contributed to the poor sentiment towards SA assets.

Local inflation breaks from peers

SA's inflation outlook is considerably different relative to its emerging market counterparts, due in large part to very little demand side pressure or credit extension. Inflation is expected to remain close to the midpoint of the target band over the medium term, hence lessening the pressure on the SARB to increase rates aggressively in the short term. However, to keep inflation expectations under control, reduce the need to hike rates aggressively later and provide policy room to react if a crisis does rear its head again, it will likely start the process of gradual monetary policy normalisation by the end of 2021. In addition to adopting a gradual approach to hiking rates, policy rates are expected to peak at much lower levels than in previous cycles. Our expectations are for a gradual rise in the repo rate to between 5.5% and 6.0% by 2023/24.

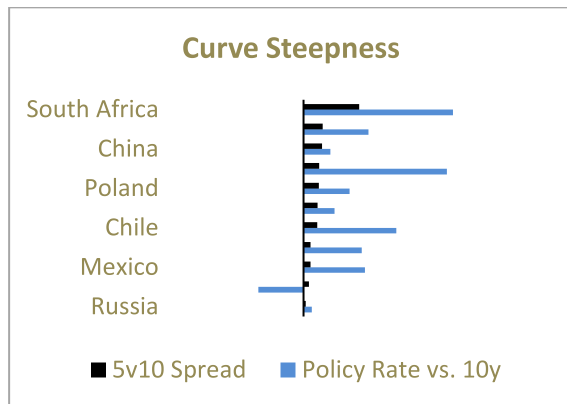
Bad weather ahead?

The clouds of SA's precarious fiscal position continue to darken the outlook for the local economy. The cyclical tailwinds from strong commodity prices are not going to last forever, and the expenditure pressures continue to mount. The recent revisions to SA GDP numbers, combined with the better-than-expected tax revenue for 2021/22, implies a lower starting position for SA's debt to GDP ratio. However, the trajectory of this debt is concerning and more needs to be done to turn this around. Expenditure requirements are only going to increase from here, given the ailing financial health of local state-owned enterprises and municipalities. This places pressure on reform implementation as an accelerant for growth. Although much has been done over the last year to provide the platform for higher growth, the pace of implementation, combined with the lack of State capacity, has meant that longer term expectations for growth are still anchored at c. 1.5%-2.0%, quite a way from the 3.0%-3.5% required.

Capital expenditure growth and employment, which are key for growth, are challenged by policy complexity and low levels of confidence. The only socially palatable way to avert a debt trap is to accelerate the pace of reforms, simplify policy and implement quickly. This will go a long way to re-instill investor and consumer confidence, which will contribute to a more sustainable and higher growth path. The ship has set sail in the right direction, but the sea is rough, and much courage is needed to stay the course.

Despite the risk posed by the deterioration in SA's fiscal position, the valuation for SAGBs remains quite appealing and suggests that a large part of the risk is already reflected in bond yields. While SAGB's still have the highest real yield among the emerging market universe, Figure 1 shows that SA's yield curve remains the steepest among its peers. This indicates that, from a global perspective, SA still has a relatively high embedded risk premium. The 10-year SAGB trades at close to the highest multiple of cash, meaning that bond yields can selloff more than 100bps before they start to underperform cash.

Figure 1 Comparison of steepness of emerging market yield curves



Source: BBG, Coronation

Our fair value estimate for the 10-year SAGB, which uses the US 10-year Treasury note as the risk-free rate, the inflation differential between SA and the US, and SA credit risk premium, also suggests there is a significant risk residual in SA government bonds.

SA 10-year Fair Value = 2.0% (expected US 10-year) + 5.5% (expected SA inflation) – 2.5% (expected US inflation) + 3.66% (current SA/US credit spread) = 8.66%

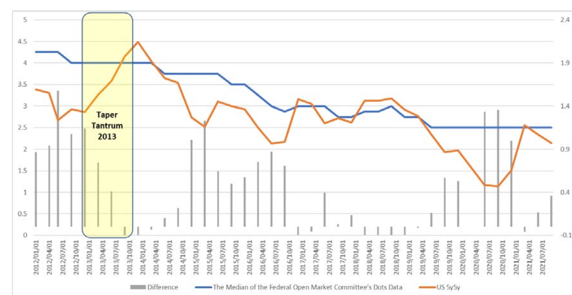
The above fair value compares favourably to current trading levels of 9.7%. This, combined with the evidence presented through implied 10-year bond yields, the steepness of the SA yield curve and where SAGBs are trading relative to cash, leaves us confident that current bond yields reflect adequate compensation for the underlying fundamental risks.

US to wind up stimulus

At its September meeting, the Federal Open Market Committee indicated that it was closer to starting it process of reducing the size of its asset purchase programme by the end of 2021, with tapering to be complete by the second half of 2022. The suggested pace of the reduction is quicker than the market expected; however, this was balanced by increased emphasis on the decoupling of tapering and rate hikes. In 2013, when the Federal Reserve Board (the Fed) reduced its asset purchasing, it injected a huge amount of volatility and uncertainty into the market, which caused risk assets to sell off aggressively. This time around, we think a few key things have changed:

1. The process of tapering is much more familiar concept than it was in 2013 and much more is known about the process/method.
2. The announcement of tapering in 2013 was a surprise and no forewarning was given. In fact, in the months leading up to that tapering, the Fed had revised its expectations of the long-term neutral rate lower. This time, it has signalled their intentions well in advance and when they are even thinking about thinking about tapering.
3. In 2013, the Fed's expected long-term neutral rate (as disclosed in their projections) was 4.0%, yet five-year, five-year rates ([5y5y] market expectations for five-year rates in five years' times) were at 2.75%. The Fed also didn't downplay the risk that policy rates would go higher once tapering ended. This resulted in an aggressive repricing of US 10-year rates to represent long term expectations. Currently, the Fed has guided to the longer-term policy rate being 2.5% and explicitly decoupled higher policy rates from the end of tapering. In addition, current 5y5y rates are at 2.15%, just marginally below the Fed's expected long-term neutral rate at 2.5% (Figure 2).

Figure 2: US Rate expectations versus FED long term rate expectations



Source: Coronation, Bloomberg

It is for the above reasons that we do not believe that tapering this time around will result in the amount of volatility that was created in 2013 or a large selloff in risk assets. There, of course, will be some volatility around the event and there might in fact be higher volatility, but it won't be the announcement/start of tapering that would cause it.

Reward for risk

In previous iterations of this report, we have spoken in detail about the listed credit markets and our view that valuation does not adequately compensate for the underlying risks in most tradable listed credit instruments. This remains the case. In fact, spreads have continued to compress making most of the asset class unattractive. The increased amount of money being allocated to interest bearing funds combined with a drop off in issuance levels in the listed credit market has exacerbated the supply/demand imbalance. As such, we continue to remain cautious on this asset class. A new segment of the credit market has presented itself, which we believe warrants investment. Sustainability-linked bonds (SLBs) are a new domestic asset class but are well established internationally. Unlike green bonds, which restrict the use of proceeds from the bonds to be invested only in ESG-linked projects, SLBs reward lenders by providing a funding benefit if certain sustainability targets are met within a defined period. This funding benefit is reflected in a tighter credit spread (0.05%-0.1%) after a specified period, provided that the sustainability targets are met. These targets can be anything from greenhouse gas emissions and photovoltaic capacity, to water-use efficiency and green building certification. Issuance has been small (approximately R3 billion year to date), but this is a segment that will grow. Spreads have been more attractive than those of traditional listed credit, as is generally the case with a young and lesser understood asset class. Coronation has been an anchor investor in this new segment and, provided valuations stay attractive, we will continue to support this segment going forward.

Valuations outweigh risks

The local economic recovery remains on track, as inflation will remain under control and growth recovers. Medium-term expectations for inflation remain contained, while longer term expectations for growth are below the needed level to avert continuing concerns of SA being in a debt trap. However, current valuations remain attractive, both relative to local and global alternatives, suggesting the embedded risk premium is currently sufficient to compensate for the underlying risks. The start of the tapering of the Fed's asset purchase programme should not inject the same amount of volatility and uncertainty into markets, like it did in 2013 and, therefore, should not have the same negative an impact on SAGBs. We continue to view SAGBs in the 10- to 15-year area of the curve as the most attractive asset and advocate overweight positions for bond portfolios.

Portfolio managers
Nishan Maharaj, Steve Janson and Seamus Vasey
as at 30 September 2021

CORONATION
TRUST IS EARNED™

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 the current financial year (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.