CORONATION BOND FUND

Fund Information as at 31 July 2022

CORONATION

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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.

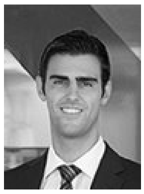
Fund expenses that are incurred in the fund include trading, custody and audit charges. All performance information is disclosed after deducting all fees and other portfolio costs.

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
ASISA 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

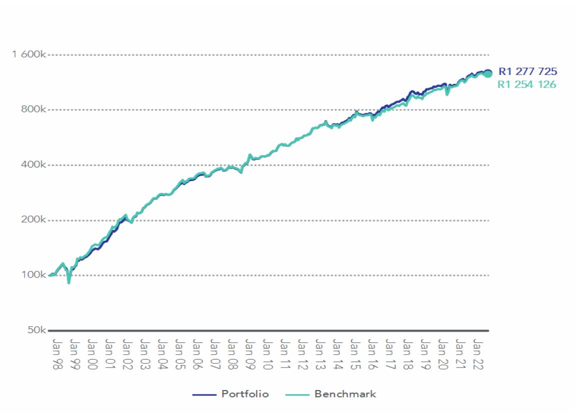
CLASS R as at 31 July 2022

ASISA Fund Category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 4.00 billion
NAV	1381.91 cents
Benchmark	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)	1177.7%	1154.1%	23.6%
Since Launch (annualised)	10.7%	10.6%	0.1%
Latest 20 years (annualised)	9.2%	9.1%	0.1%
Latest 15 years (annualised)	8.5%	8.3%	0.2%
Latest 10 years (annualised)	7.2%	7.0%	0.2%
Latest 5 years (annualised)	7.3%	8.0%	(0.7)%
Latest 3 years (annualised)	6.1%	6.9%	(0.8)%
Latest 1 year	2.9%	2.9%	0.0%
Year to date	0.0%	0.5%	(0.5)%

	Fund
Modified Duration	6.7
Yield (Net of Fees)	10.3%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.7%	8.5%
Sharpe Ratio	0.27	0.23
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	70.7%	70.7%

	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	90.7%
State Owned Entities	0.2%
Banks and Insurers: NCDs and Deposits	1.9%
Banks: Senior Debt	5.3%
Banks: Subordinate Debt (<12m)	0.8%
Banks: Subordinate Debt (>12m)	1.1%
Insurers	0.0%
Other corporates	0.0%
REITS	0.0%
Other (Currency Futures)	0.0%
Total	100.0%

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic of South Africa Government Bonds	89.6%
FirstRand Limited	4.1%
Standard Bank of SA Ltd	2.6%
Nedbank Ltd	2.6%
Absa Group Ltd	0.9%

MATURITY PROFILE DETAIL

Sector	31 Jul 2022
0 to 3 Months	2.0%
3 to 6 Months	0.0%
6 to 9 Months	0.8%
1 to 3 Years	1.0%
3 to 7 Years	3.7%
7 to 12 Years	38.7%
Over 12 Years	53.8%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
31 Mar 2022	01 Apr 2022	61.23	61.23	0.00
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

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2022	0.47%	0.49%	0.39%	(1.69)%	0.93%	(3.26)%	2.78%						**0.00%**
Fund 2021	0.83%	1.00%	(3.20)%	1.83%	4.20%	1.48%	0.68%	1.83%	(2.29)%	(0.20)%	0.54%	3.04%	**9.95%**
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%**

Issue date: 2022/08/11

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 massive disruption wrought on the world by Covid-19 has faded into a vivid dream and, while new variants are emerging, its effect on everyday life is greatly diminished. The world now faces a new, covert predicament – the effect of soaring inflationary pressures on the cost of living. A perfect storm of the liberal application of fiscal stimulus to keep consumers afloat during the pandemic, supply chain bottlenecks and sanctions on Russian exports have combined to create the largest, synchronised uptick in global inflation in over 50 years. Global central banks were initially dismissive of the sustainability of the inflation uptick, but the last few months has seen an appreciable increase in anxiety, which has led to considerable action to limit the fallout. This more aggressive action has taken the form of many central banks looking to hike interest rates to levels that are well above neutral in a very short period to slow overheating economies. Markets have reacted by pricing a recession as the only viable means of arresting inflation, which has injected significant volatility into both developed and risky asset markets.

During the first quarter of this year, South African (SA) markets stood out for their resilience among the global turmoil, but succumbed to the pressure from global markets in the second quarter. Inflation-linked bonds (ILBs) were the only safe place within local fixed income markets as they registered a return of 2.95% for the quarter, bringing their year-to-date and one-year returns to 3.26% and 10.72%, respectively. They were buoyed by an increase in inflation expectations following an upside surprise in May's inflation number and an upcoming period where inflation will remain above implied breakeven inflation levels. Nominal bonds followed global bond trends as yields kicked up almost 100 basis points (bps) since the previous quarter as risk sentiment soured. Despite losing almost 2% so far in 2022, the performance of SA bonds remains significantly better than that of global bond markets, which are down almost 15% in US dollars this year (as measured by the FTSE World Government Bond Index (WGBI)).

SA headline inflation surprised significantly to the upside in May, printing 6.5% versus market expectations of 6.1%. Food was the most significant upside surprise, suggesting that second round effects might prove worrisome. Our expectations are for CPI to continue its upward trajectory, breaching 8% and staying above the top end of the inflation band (6%) for at least the next 12 months. We now expect the South African Reserve Bank (SARB) to continue hiking rates in 50bps increments for the next two meetings before reverting to 25bps, taking the repo rate to 6.75% (previous 6.5%). Our expectations are for CPI to average 5.3% in 2023 and 4.5% in 2024; however, the risks remain to the upside. Current market pricing already encapsulates a significant inflation premium, suggesting a repo rate of between 7.5% and 8% by end-2023. This would imply a real repo rate, based on current inflation expectations, of 3% higher than the SARB's own 2.1% and our expectation of real repo at 1.5% to 2%.

Fiscally, SA is on a much better footing. However, many of the tailwinds that were providing support are expected to fade and the recent intensification of the energy crisis highlights the need for further support for ailing State-owned enterprises (SOEs). The three main risks for the fiscus are a higher-than-budgeted wage bill, an extension of the social relief of distress grant into a permanent basic income grant, and further support being needed by SOEs, specifically Eskom. It is our expectation that much of the tax overrun for this year will be diverted to these three areas as opposed to reducing the borrowing requirement. While this can be easily digested over the current fiscal year, going forward, the only way these can be less onerous is with 2.5% to 3% growth.

The main impediments to growth are well known, with energy supply being top of the list. Operation Vulindlela has been fast-tracking projects, so that investment is targeted into the key growth areas. This should help the growth profile over the next two to three years, but the elephant in the room remains the energy sector and steps taken to liberalise entry into that sector. The October Medium-Term Budget Policy Statement is expected to pave the way to this through a debt plan for Eskom, which should help eliminate the largest risk for the fiscus and help accelerate the path to separation. However, until there is more clarity on this plan and its impact, SA will remain a sub-2% growth economy. On the funding side, National Treasury (the Treasury) finally came to market with a floating rate note to reduce their current cost of funding. However, at this point, the instrument is not being used as a substitute for fixed rate funding and, thus, there has been no reduction in fixed rate issuance. In the next few quarters, the Treasury should use the opportunity for lower funding costs and demand for floating rate instruments to reduce their reliance on fixed rate funding and release some of the issuance premium (which forms part of the fiscal premium) currently encapsulated in SA government bonds (SAGBs). This, once again, points to things moving in the right direction, but at a very glacial pace.

The current spike in inflation and rising global interest rate environment requires us to revisit our expectations around i) implied inflation between SA and the US; ii) expectations around fair value for US 10-year yields; and iii) the current measure for risk sentiment priced into risky assets.

Since the start of inflation targeting in SA, SA inflation has trended lower, but, more importantly, our differential to the US has also trended lower. Historically, SA inflation was expected to average between 5.5% and 6% while US inflation expectations were steady between 1.5% and 2%, leading to an inflation differential of ~4%. However, in the last five years, this has changed considerably, with the differential retreating to between 2% and 3% and, more recently, US inflation exceeding SA inflation by 2%! Longer-term expectations for US inflation are around 2%, however, market pricing suggests something in the range of 2.5% to 3%, which is above the Federal Reserve Board's (the Fed) average target of 2%. SA inflation is expected to be high over the short term but settle around 5% to 5.5% over the longer term, suggesting an inflation differential of 2% to 3%.

Longer-term real rates have proven to be a strong driver of emerging market bond yields and risk sentiment over time. The recent repricing has been more violent and larger than in the taper tantrum of 2013, putting levels well above the post-Global Financial Crisis (GFC) average of 0.15%. The current level of 0.75% is much higher than that but still lower than the pre-GFC average of 2%. However, real GDP growth in the 2003 to 2007 period averaged 3%, compared to the post-GFC average of 2%. In addition, the debt load that the US carries now is significantly higher, with current interest payments consuming 9% of revenue, which would increase to well above 20% if the US funding rates (bond yields) move to 4.5%, which would be unsustainable. As such, with an expectation of US inflation to settle in the 2.5% to 3% range, it is likely that US real rates stay contained in the current range of 0.5% to 1%. This implies a fair value for the US 10-year rate of around 3% to 4%.

Risk sentiment has deteriorated considerably as can been seen in the performance of the BB Index, of which SA is a component. Spreads have only been wider during the GFC and the Covid-19 crisis. The implication of this is that the market has already priced in a decent expectation of a recession, as credit quality/worthiness generally deteriorates during such periods. If the recession does not materialise or proves to be short lived, then it is likely that these spreads will return very quickly to their longer-term average of around 350bps to 400bps, or even lower, depending on the growth dynamics. In large part, the most recent sell-off of SAGBs can be seen as a reflection of the deterioration in recent risk sentiment.

The fair value for the SA 10-year bond is made up of expectations for the global risk-free rate (US 10-year bonds), SA's inflation differential to the US and a measure of credit worthiness of the SA sovereign. In the previous paragraphs, we ascertained a fair value for the US 10-year bond was 3% to 4%, the inflation differential between SA and the US should be 2% to 3% and SA's credit spread should be in the 3.5% to 4% range. Taken together, this puts the fair value of the 10-year SAGB at between 9% to 9.5%, which is still well below current market pricing of 11%, which continues to suggest considerable longer-term value in the SA 10-year bond.

ILBs have had a great run over the last two quarters. Despite good outperformance, we still find value in the shorter-dated ILBs, given their real yields are more than 2% and the implied break-even inflation for these instruments still sits at 5% versus our expectations for inflation of above 6% for the next year. This implies a minimum expected total return of 8.6% (2.6% + 6%) for an instrument with a maturity in 2025, which is 2% above expected cash rates and close to what can only be achieved by investing in a nominal bond of longer maturity (2026). We still believe that longer-dated ILBs, given their higher modified duration and significantly higher implied breakeven inflation, do not offer as much value as their equivalent nominal bonds and we would thus avoid these for a bond fund.

Central banks globally have started down a path of rapid monetary policy normalisation in the wake of much higher and persistent inflation. In many cases, policy rates are expected to move into restrictive territory, which carries the risk of sending the global economy into recession. There has been a profound impact on global risk sentiment and expectations are for emerging market central banks to adopt a similar stance. In SA, the market has priced a much more aggressive monetary policy normalisation cycle, despite a more gradual rise in local inflation. Bond yields have widened in line with the deterioration in global risk sentiment and repricing in global bond yields, but still encapsulate a significant risk premium. We continue to believe that bond yields in the 10-year area of the curve still offer significant value for bond portfolios, and allocations to ILBs should still be maintained but focused in the shorter end of the yield curve.

Portfolio managers
Nishan Maharaj, Steve Janson and Seamus Vasey
as at 30 June 2022

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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 underlying 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 previous financial year (updated annually). The 3 year TER is for a rolling 36-month period to the last available 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.