CORONATION BOND FUND

Fund Information as at 31 October 2022

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.

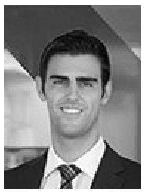
Fund expenses that are incurred in the fund include trading, custody and audit charges. All performance information is disclosed after deducting all fees and other portfolio costs.

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

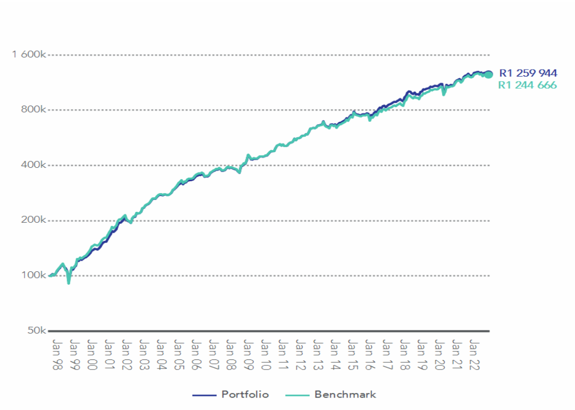
Launch Date	1 August 1997
Fund Class	R
Benchmark	BEASSA ALBI Index
ASISA Fund Category	South African – Interest Bearing – Variable Term
Regulation 28	Does not comply
Income Distribution	Semi-annually (March & September)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORSPBD
ISIN Code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

ASISA Fund Category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 4.23 billion
NAV	1303.99 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%	0.73%
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)	1159.9%	1144.7%	15.3%
Since Launch (annualised)	10.6%	10.5%	0.1%
Latest 20 years (annualised)	9.0%	9.0%	0.1%
Latest 15 years (annualised)	8.1%	8.0%	0.1%
Latest 10 years (annualised)	7.0%	6.9%	0.1%
Latest 5 years (annualised)	6.9%	7.9%	(1.0)%
Latest 3 years (annualised)	5.1%	6.2%	(1.1)%
Latest 1 year	2.2%	3.1%	(0.9)%
Year to date	(1.4)%	(0.3)%	(1.1)%

	Fund
Modified Duration	6.6
Yield (Net of Fees)	10.9%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.7%	8.5%
Sharpe Ratio	0.25	0.22
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	70.6%	70.6%

	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	90.3%
State Owned Entities	0.2%
Banks and Insurers: NCDs and Deposits	2.3%
Banks: Senior Debt	3.9%
Banks: Subordinate Debt (<12m)	0.8%
Banks: Subordinate Debt (>12m)	1.4%
Insurers	0.0%
Other corporates	1.1%
REITS	0.0%
Other (Currency Futures)	0.0%
Total	100.0%

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic of South Africa Government Bonds	89.2%
Nedbank Ltd	5.3%
FirstRand Limited	3.7%
Standard Bank of SA Ltd	2.6%
Absa Group Limited	1.1%

MATURITY PROFILE DETAIL

Sector	31 Oct 2022
0 to 3 Months	2.4%
3 to 6 Months	0.8%
1 to 3 Years	1.5%
3 to 7 Years	3.5%
7 to 12 Years	37.9%
Over 12 Years	53.9%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
30 Sep 2022	03 Oct 2022	58.71	58.71	0.00
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

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%	0.28%	(2.42)%	0.77%			**(1.39)%**
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: 2022/11/09

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 2008/2009 Global Financial Crisis (GFC) precipitated a remarkable period in financial markets. Global inflation was significantly lower in the decade following GFC, and financial repression across developed markets ensured a bonanza of borrowing at some of the lowest interest rates in the history of the globe. Just over a decade later, this trend was further entrenched by the actions taken by global governments to drag themselves out of the Covid-induced recession.

All good things in life come at a price and, after extended indulgence, the cost to the global economy manifested in a significant jump in the cost of living. Inflation has come back to bite, and central banks must choose between tightening their belts or loosening their pants. The uncertainty spawned by the rapidly changing macro variables has resulted in not only a significant increase in volatility, but also a sizeable change in asset valuation.

This year, market volatility (Volatility Index) is up c.80%, global equities (MSCI World Index) are down c.25% and global bonds (FTSE World Government Bond Index) are down c.21%. US bond yields have risen more than 300 basis points (bps) since their lows in 2020, which has led global bond yields higher. And yet, no matter how bad things are, you can always make it worse. The UK signaled a policy pivot towards a largely unfunded pro-growth policy, which saw their 30-year bond yields soar to above 5%.

Amid all this volatility, SA bonds were not spared, with the FTSE/JSE All Bond Index down 2.11% in September, bringing its year-to-date return to -1.34%. When translated to dollars (-13%), this is significantly better than global bond returns. Despite real yields ticking higher, inflation-linked bonds (ILBs) still offered some protection in the sell-off, as they were down 1% over the quarter, bringing their return over the year to 2.23%, which is still above bonds but below cash (1.35% over the last quarter and 3.57% year to date).

In South Africa (SA), inflation peaked in July at 7.8% and should return to the target band (3%-6%) by the second quarter of 2023 (Q2-23). Many of the factors that pushed SA inflation up (food and fuel) have already started to recede, but inflation will prove stickier than previously anticipated, averaging above 5% over 2023 and 2024. This is on the back of upside risks stemming from administrative prices (Eskom has applied for a 32% tariff hike for 2023/2024) and large (>6%) government wage increases.

The SA Reserve Bank (SARB) started the hiking cycle earlier than strictly needed, but remains focused on anchoring inflation closer to 4.5%. Recent rhetoric coming out of SARB suggests they will take the repo rate into restrictive territory to prevent inflation from spinning out of control – such as we are seeing in many developed market economies. This implies that the SARB is most likely going to overreact and take the repo to 7.5% by the first quarter of 2023 (Q1-23).

Given the poor growth outlook, they will probably be forced to take the repo back down to 6.5% sooner than their forecasts suggest. Market pricing is still more aggressive, expecting the repo rate to peak at 8.25% by end of Q2-23, suggesting that bond yields still embed significant inflation and interest rate premium.

The upcoming Medium-Term Budget Policy Statement will provide more guidance on SA's fiscal position, but this year's revenue overrun should provide significant breathing room. However, the possibility of a higher-than-budgeted-for wage deal for public servants and an extension of the Social Relief Distress Grant into a more permanent basic income grant could weigh on the longer-term prospects for fiscal consolidation. The transfer of Eskom debt onto the sovereign balance sheet should be a positive as it eliminates a known risk that hangs over the economy; but whether further money is injected into the entity to speed up maintenance remains a further risk.

Nominal growth rates should be higher since inflation will be higher than initially expected, and combined with better tax collection at SARS, tax revenue could remain buoyant. At this point, although there remain risks to the current fiscal trajectory, we believe that there is still sufficient breathing room over the short to medium term, but growth needs to be higher to completely mitigate the risk posed by the increasing debt burden.

In the past two quarters, global monetary policy and bond yields have become a much larger driver of local bond valuations. US 10-year bond yields have traded in a 3.5%-4% range more recently as concerns over structurally higher inflation has eroded their value. US inflation peaked as 9% in June 2022, however, the decline from that high has not been as quick as the market expected. More importantly, although the relevant inflation signals have been surprising to the downside (CITI US Inflation Surprise Index), the readings have not surprised significantly below current forecasts. The core elements of the CPI basket as well as personal consumption expenditure have all remained uncomfortably high, signaling that, although headline inflation might be heading lower, underlying inflationary pressures remain.

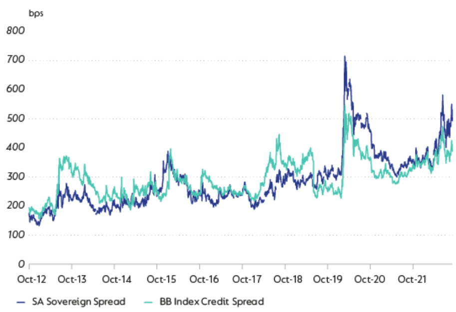
This has two key implications for our US economic expectations. Firstly, our expectations for long-term headline inflation in the US needs to be adjusted higher from 2.5%-3% to 3%-3.5%; and secondly, the Federal Reserve Board (the Fed) is more likely to move policy rates into much more restrictive territory, driving the economy into recession in order to address this inflationary problem. Current market pricing has adjusted to recent Fed guidance, putting the peak in the federal funds rate at 4.5% by Q1-23 and remaining above 4% until 2024.

One of the key elements of debt sustainability is the ability to keep the cost of financing low. Current 10-year real yields in the US are back up to levels last seen in the 2000s, which can be expected with core CPI well above those levels. However, one thing that has changed significantly is the US debt load which has more than doubled over the same period. Assuming that core CPI recedes to levels of 2.5%-3% (headline generally sits 0.25%-0.5% above), this would imply a real 10-year yield of around 1% (given historical precedence) but, given the much higher debt load, this real yield would need to sit closer to 0.5%. This would put the normal fair value of the US 10-year bond at 3.5%-4% (3%-3.5% + 0.5% real yield).

Fund positioning

The other element that needs to be considered before we derive the implication for SA bond yields is the level of risk aversion currently being priced into our credit spread. In the following chart we notice two key things. Firstly, credit spreads in general are elevated when compared to history. Secondly, SA remains even more elevated compared to its history and peer group. This indicates that there is significant room for SA's credit to compress from current levels of 490bps to between 350bps and 400bps.

SA VERSUS BB-RATED CREDIT SPREAD



Sources: Bloomberg, Coronation

This brings us to our fair value for SA 10-year bonds. The table below lists high and low expectations for all the variables we consider to be key drivers of our SA 10-year bond yields. The fair value range of 9%-10% still compares very favourably to current market levels of 11.35% and provides us with enough comfort that SA bond yields are still very cheap when taking a medium- to longer-term view.

RANGE OF DRIVERS OF SA BOND YIELDS

	High	Low
Global RR (US 10-year)	3,50%	4,00%
US Inflation	3,00%	3,50%
SA Inflation	5,00%	5,50%
SA Credit Spread	3,50%	4,00%
Implied SA 10y FV	9,00%	10,00%

Source: Coronation

ILBs have had a decent run and their outperformance relative to nominal bonds requires us to relook at valuation. The following table looks at the various ILBs, their real yields and what their implied nominal yields would be at 6% inflation, and compares them to the equivalent nominal bond of the same maturity. In addition, we show the modified duration of both the ILBs and the nominal bonds for the various maturities. Even though real yields remain quite elevated in the longer end (>10 years), one would still need inflation in excess of 6% for ILBs to outperform their nominal equivalents.

INFLATION-LINKED BOND YIELDS VERSUS NOMINAL BOND YIELDS

ILB	Maturity	Real Yield	Implied Nominal Yield at 6% Inflation	Equivalent Nominal Yield	MOD (ILB)	MOD (Equivalent Nominal)
R197	Dec-23	1,90	8,01	7,54	1,12	0,97
I2025	Jan-25	2,67	8,83	8,15	2,24	1,84
R210	Mar-28	2,84	9,01	9,76	5,07	4,05
I2029	Mar-29	3,75	9,98	10,24	5,99	4,66
I2033	Feb-33	4,39	10,66	11,22	9,13	6,34
R202	Dec-33	4,48	10,75	11,31	8,94	6,52
I2038	Jan-38	4,45	10,72	11,62	12,27	7,33
I2046	Mar-46	4,46	10,73	11,62	16,30	8,18
I2050	Dec-50	4,48	10,75	11,58	17,92	8,34

Source: Coronation

When taking into consideration that the risk (relative modified duration to nominals) carried by ILBs are multiples of their nominal counterparts, it makes sense that one should instead own nominal bonds in that area of the curve. The shorter end of the curve offers a much better risk/return profile with a marginally higher duration risk, which is amply compensated for by better return prospects than those of their nominal bond counterparts. As such, we continue to advocate shorter-dated ILB positions for bond portfolios.

Outlook

Global monetary policy normalisation has gathered pace to combat the highest inflation in decades. Central banks are willing to sacrifice growth by taking policy rates into restrictive territory, to ensure inflation does not get disorderly. This has pushed global bond yields to levels that have not been seen since before the GFC. Risk sentiment has soured as volatility has soared and asset prices have tumbled. SA bonds have fallen victim to this global fallout, but still embed a significant buffer both from an inflation and risk premium perspective. The uncertainty around global inflationary outcomes will ensure that volatility remains elevated, but, over the longer term, valuations of SA bonds should provide a reasonable buffer, as they have already, since they trade at significant discount to fair value. We continue to advocate an overweight position in SA bonds and believe short-dated ILBs still warrant a place in portfolios.

Portfolio managers

Nishan Maharaj, Steve Janson and Seamus Vasey

as at 30 September 2022

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 over the period referenced. 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

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