CORONATION BOND FUND

Fund Information as at 30 April 2023

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.

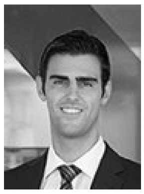
Fund expenses that are incurred in the fund include trading, custody and audit charges. All performance information is disclosed after deducting all fees and other portfolio costs.

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

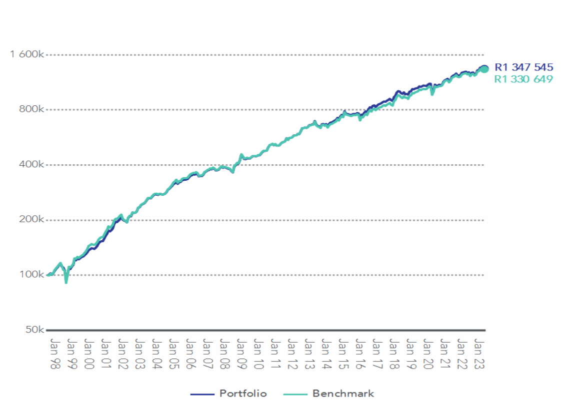
Launch Date	1 August 1997
Fund Class	R
Benchmark	BEASSA ALBI Index
ASISA Fund Category	South African – Interest Bearing – Variable Term
Regulation 28	Does not comply
Income Distribution	Semi-annually (March & September)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORSPBD
ISIN Code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

ASISA Fund Category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 3.88 billion
NAV	1330.12 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)	1247.6%	1230.6%	16.9%
Since Launch (annualised)	10.6%	10.6%	0.1%
Latest 20 years (annualised)	8.8%	8.7%	0.1%
Latest 15 years (annualised)	8.8%	8.7%	0.1%
Latest 10 years (annualised)	6.8%	6.8%	0.1%
Latest 5 years (annualised)	5.9%	6.8%	(0.9)%
Latest 3 years (annualised)	9.5%	9.8%	(0.3)%
Latest 1 year	5.8%	6.4%	(0.6)%
Year to date	1.9%	2.2%	(0.3)%

	Fund
Modified Duration	6.4
Yield (Net of Fees)	10.8%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.7%	8.4%
Sharpe Ratio	0.26	0.23
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	89.2%
State Owned Entities	1.3%
Banks and Insurers: NCDs and Deposits	3.7%
Banks: Senior Debt	3.6%
Banks: Subordinate Debt (<12m)	0.0%
Banks: Subordinate Debt (>12m)	1.5%
Insurers	0.0%
Other corporates	0.2%
REITS	0.4%
Other (Currency Futures)	0.0%
Total	100.0%

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic of South Africa Government Bonds	88.0%
Standard Bank of SA Ltd	4.8%
Nedbank Ltd	2.6%
FirstRand Limited	2.3%
JP Morgan Chase Bank	1.3%

MATURITY PROFILE DETAIL

Sector	30 Apr 2023
0 to 3 Months	1.6%
1 to 3 Years	2.0%
3 to 7 Years	8.3%
7 to 12 Years	32.6%
Over 12 Years	55.5%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
31 Mar 2023	03 Apr 2023	65.38	65.28	0.10
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

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2023	3.01%	(0.85)%	1.40%	(1.56)%									**1.94%**
Fund 2022	0.47%	0.49%	0.39%	(1.69)%	0.93%	(3.26)%	2.78%	0.28%	(2.42)%	0.77%	4.31%	0.58%	**3.46%**
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: 2023/05/11

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 relative calm and optimism of the new year quickly evaporated during the first quarter of 2023. Global inflation data proved to be stickier that anticipated in its descent, pushing expectations of monetary policy normalisation higher. The US went from pricing a peak in the US Fed funds rate of 4.9% at the end of January to between 5.5% and 5.75% by end February. This reversed during the month of March, as bank failures in the US and Europe stirred up memories of the 2008/2009 Global Financial Crisis. The tightening in lending standards by the banking sector, specifically second tier banks, which are large lenders in the US economy, is expected to act as a handbrake on demand, putting downward pressure on growth. Global bonds have proven to be the only safe place to hide during this period as yields on US and EU bonds compressed by almost 50 basis points (bps) during the quarter.

South African (SA) bonds lagged their developed and emerging market peers. The rand was down 4.3% over the quarter, making it one of the worst performing emerging market currencies. SA bonds also underperformed, with their spread over US bonds widening by 20bps despite many other emerging markets seeing spreads tightening. The FTSE/JSE All Bond Index (ALBI) returned 3.39% over the quarter, which was ahead of cash (1.70%), however, the outperformance was smaller for the 12 months to end March, with the ALBI returning 5.83% versus the 5.63% from cash. Most of the ALBI's positive return was driven by a change in the shape of the yield curve, with the 7- to 12-year maturities outperforming maturities of more than 12 years, as the latter steepened significantly over the last quarter. Inflation-linked bonds (ILBs) have continued to lag the performance of the ALBI and cash over the last quarter (ILBs +0.94%) and year (ILBs +4.92%). This has been predominantly due to a move higher in real yields in sympathy with nominal bonds and reduced inflation accrual as inflation has been heading lower.

Global inflation has proven to be stickier primarily due to strong demand and job growth in the developed world. In SA, inflation is also proving to be stickier but for different reasons. The effect of loadshedding on the economy is feeding through to inflation in two ways. First, the tariff increase of c.18% for this year, means that inflation will again kick up to above 6% in the second half of this year. Second, loadshedding not only hampers company profitably due to reduced trading hours, but it also increases costs due to the need for alternative power generation methods (diesel for generators, solar panels, inverters, etc.). This cost increase would not be severe if it was isolated to a single industry, as it would probably be absorbed by margins. However, due to the broad-based nature of this cost increase, it will be passed onto the consumer through raising prices. The result is a significantly deteriorated inflation profile with inflation averaging 6% (6.2% in 2023 and 5.8% in 2024) until the end of 2024, which is about 0.5% higher than our previous forecasts.

The South African Reserve Bank (SARB) raised interest rates by more than expected at the March Monetary Policy Committee meeting, taking the repo rate to 7.75%, as a direct result of the deterioration in their own inflation forecast. Risks are tilted towards further increases, however, with the real repo rate now firmly in positive territory (+1.2%) and expected to increase towards 2% for most of the forecast period, the SARB might find it difficult to implement significant repo rate increases, especially considering growth expectations for this year remain close to 0% and c.1.5% for 2024. The repo rate is most likely at or very close to its peak.

SA bonds have traded at a significant yield differential to cash rates and since the start of the hiking cycle, this spread has steadily compressed absorbing a large part of the rise in short-term rates. At current levels, although, the 10-year SA government bond (SAGB) spread to cash has compressed, it still has a significant buffer to absorb further minor increases in the repo (cash) rates. As such, the effect of elevated inflation and cash rates should be quite muted going forward.

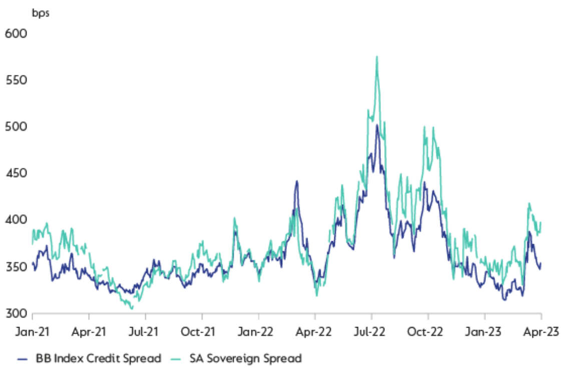
The ailing fiscus remains the biggest risk to the SA economy. At face value, the February 2023 Budget suggested quite a contraction in the budget deficit over the next three years, but it left investors with more questions than comfort. Firstly, the treatment of the Eskom bailout package was not seen as an expenditure item, despite the bailout taking the form of yearly injections rather than an actual debt transfer – which is essentially expensing it. If this is treated as an expenditure item, then this adds c.1% of GDP to the budget deficit forecasts. On the revenue side, despite poorer growth prospects for the local economy due to loadshedding and slow reform progress, Treasury still expects tax revenue to stay higher than it was pre-Covid. Even though over the last two years, revenue was boosted by extraordinary commodity-related profits that are already coming off quite quickly, tax revenue is expected to remain around 25% of GDP, well above its pre-Covid 10-year average of 23.5%. SARS' efficiency has improved, but not to that extent. As such, it's more likely that this number is closer to 24% of GDP on a sustainable basis.

Expenditure is expected to contract back to its pre-Covid 10-year average of 28.5% of GDP by the end of the forecast period. This might seem realistic but, when one factors in the way that the wage bill was already settled at a cost of 0.5% of GDP and the Social Relief of Distress Grant has not been extended beyond 2022/2023, which could add another 0.5% of GDP to expenditure, slippage from this level seems very likely, with 1% of GDP probably an optimistic outcome.

Assuming 1% of GDP slippage on both revenue and expenditure (remember no provision has been made for further state-owned entity bailouts), one can easily see that the budget deficits are more likely to be around 5% of GDP on an ongoing basis. This number balloons to more than 6% of GDP, if the Eskom bailout is accounted for as part of expenditure. A sustained budget deficit of 5%-6% of GDP is not a good place to be and will increase the pressure on funding. Economic growth of 2%-2.5% is the only way to avert a severe debt crisis in the long term, however, in the short to medium term, there are two release valves.

The first of which is Treasury's funding strategy. SA's weighted average maturity of outstanding debt is around 11 years, with almost all of it issued in the fixed-rate space. Treasury could easily shorten the maturity of issuance and move it more significantly to floating-rate issuance to decrease the cost of the debt. This will help limit the increase in the cost of debt funding and provide more room for longer-term budget deficit consolidation measures. Secondly, valuations should always compensate for the fundamentals. SA's credit spread now trades close to its widest levels when compared to its BB-grade (sub investment) peers (as illustrated in the following figure). This underperformance is more apparent in the last quarter as BB credit spreads have compressed while SA's credit spread has widened. This suggests the embedded risk premium in the valuation of SAGBs has adjusted for negative shift in the fiscal outlook.

SA SOVEREIGN SPREAD VS B AND BB-GRADE PEERS



Sources: Bloomberg, Coronation

ILBs are securities designed to help protect investors from inflation. They are indexed to inflation so that the principal and, hence, the interest payments rise and fall with the rate of inflation. Our current inflation forecasts suggest inflation for 2023 will average 6.2% and 5.8% in 2024. These are much stickier than our previous forecasts and with the move higher in real yields over the last 12 months (50bps), ILBs now offer an interesting investment opportunity – both versus their nominal counterparts and for the inherent protection they offer. The following table shows all the ILBs across the maturity spectrum, their real yield, equivalent nominal yields at various levels of inflation and where the similar maturity nominal SAGB trades. The green highlights where the ILB yield is above the nominal yields and the orange the opposite.

ILB REAL YIELDS VS EQUIVALENT NOMINAL YIELDS VS SAGB NOMINAL YIELDS

			EQUIVALENT NOMINAL YIELD			
		Real Yield	CPI at 5.5%	CPI at 6%	CPI at 6.5%	Actual SAGB Nominal Yield
R197	Dec-23	3.05	8.72	9.23	9.75	7.84
I2025	Jan-25	3.25	8.93	9.44	9.96	8.09
R210	Mar-28	3.77	9.48	10.00	10.52	9.05
I2029	Mar-29	4.04	9.76	10.28	10.80	9.48
I2033	Feb-33	4.54	10.29	10.81	11.34	10.69
R202	Dec-33	4.56	10.31	10.83	11.36	10.85
I2038	Jan-38	4.61	10.36	10.89	11.41	11.44
I2046	Mar-46	4.61	10.36	10.89	11.41	11.63
I2050	Dec-50	4.61	10.36	10.89	11.41	11.62

Source: Coronation

Maturities of less than 10 years (I2033* and shorter) offer an attractive pick up relative to their nominal counterparts and, as such, should be considered to make up a larger part of the bond portfolios, either in addition to current nominal holdings or as a substitute for them.

Outlook

The environment for global fixed income remains unsettled. Thoughts of higher inflation have now been dosed by concerns that recent bank failures lead to a larger global growth slide and deep recession. Despite the rally in global fixed income, SA has lagged its emerging market peers significantly given our own idiosyncratic problems with regards to undependable electricity supply and slow pace of reforms. Fiscal risks have escalated amid the façade of consolidation. However, the valuation of SAGBs has adjusted relative to its peer group and still encompasses a significant risk premium. ILBs are now offering significant value given elevated inflation risks and should be incorporated into portfolios as substitutes for or in addition to shorter-dated nominal bond holdings.

Portfolio managers
Nishan Maharaj, Steve Janson and Seamus Vasey
as at 31 March 2023

**Matures in 2033*

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 yield is calculated by taking the interest and income receivable of all the instruments in the fund divided by the net asset value, expressed as a nominal annual rate. It is provided to give an approximate indication of the achievable yield for an investment made at the reporting date. Actual experience may differ, based on changes in market values, interest rates and changes in costs actually experienced during the investment period. The yield disclosed on the MDD is current and calculated as at the MDD reporting date. 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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