

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

Maximum growth/
minimum income exposures

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
Income Distribution	Semi-annually (March & September)
Investment minimum	R5 000 or R500/m debit order
Bloomberg Code	CORSPBD
ISIN Code	ZAE000019790
JSE Code	CNSB

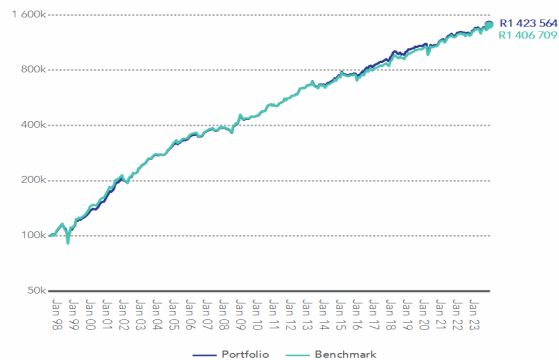
CLASS R as at 30 November 2023

ASISA Fund Category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 3.86 billion
NAV	1334.90 cents
Benchmark	BEASSA ALBI Index
Portfolio manager/s	Nishan Maharaj, Seamus Vasey & Steve Janson

	1 Year	3 Year
Total Expense Ratio	0.85%	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	0.85%	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)	1323.6%	1306.7%	16.9%
Since Launch (annualised)	10.6%	10.6%	0.1%
Latest 20 years (annualised)	8.5%	8.4%	0.1%
Latest 15 years (annualised)	8.4%	8.2%	0.1%
Latest 10 years (annualised)	7.9%	7.9%	0.0%
Latest 5 years (annualised)	7.2%	8.1%	(0.9)%
Latest 3 years (annualised)	7.7%	7.8%	0.0%
Latest 1 year	8.3%	8.8%	(0.4)%
Year to date	7.7%	8.1%	(0.4)%

	Fund
Modified Duration	6.0
Yield (Net of Fees)	10.7%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.8%	8.5%
Sharpe Ratio	0.26	0.23
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	70.3%	70.3%

	Fund	Date Range
Highest annual return	34.9%	Sep 1998 - Aug 1999
Lowest annual return	(7.0)%	Sep 1997 - Aug 1998

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)%	(5.27)%	4.95%	2.50%	(0.43)%	(2.59)%	1.64%	5.15%		7.69%
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%

PORTFOLIO DETAIL

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	85.3%
Banks: Senior Debt	6.8%
Banks: Subordinated debt (>12m)	3.1%
Banks and Insurers: NCDs and Deposits	2.4%
State Owned Enterprises	1.4%
REITs	0.8%
Other Corporates	0.2%
Banks: Subordinated debt (<12m)	0.0%
Insurers	0.0%
Total	100.0%

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic Of South Africa	84.0%
Standard Bank Of SA Ltd	4.6%
Firststrand Bank Ltd	2.3%
Nedbank Ltd	2.1%
Usa Govt Treasury	1.3%

MATURITY PROFILE DETAIL

Sector	30 Nov 2023
0 to 3 Months	2.4%
3 to 6 Months	0.1%
9 to 12 Months	0.1%
1 to 3 Years	5.3%
3 to 7 Years	9.4%
7 to 12 Years	27.9%
Over 12 Years	54.8%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
29 Sep 2023	02 Oct 2023	65.61	65.61	0.00
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

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

Global markets received a rude awakening towards the end of the third quarter of 2023 (Q3-23). The rise in oil prices to above US\$100 per barrel, inflation prints pointing to a slower deceleration in core inflation and increased central bank rhetoric of keeping rates higher for longer caused a surge in global bond yields. Stubbornly-wide budget deficits, already-high debt loads and an almost doubling of funding costs also added further fuel to the bond sell-off. Emerging markets, although slightly better placed due to higher embedded risk premium, did not escape unscathed and moved weaker in sympathy with the global bond and risk sell-off.

South African (SA) bond yields were 65 basis points (bps) higher than at the end of the last quarter, resulting in a negative FTSE/JSE All Bond Index (ALBI) return of -0.33% over the quarter. This was behind the 0.8% return from inflation-linked bonds (ILBs), which afforded some protection due to elevated real yields. However, the ALBI has still significantly outperformed ILBs both year to date (1.47% versus 0.99%) and over the last 12 months (7.24% versus 2.99%). Despite underperforming cash over the last quarter (2.03%) and year to date (5.7%), bonds have still eked out a return in line with cash over the last 12 months (7.3%). Globally, developed market bonds continue to lag the performance of emerging market bonds. Over the last quarter, with the 75bps rise in US 10-year treasury yields, the FTSE World Government Bond Index (WGBI) was down 4.27% compared to the JPMorgan Emerging Market Bond Index (EMBI), which was down 2.63%. Over the last year, the outperformance is even starker at 8.61% (EMBI) versus 1.04% (WGBI).

SA remains very poorly positioned amidst this global repricing due to its weakening fundamental backdrop. Firstly, on the inflation front, despite our inflation remaining within the target band, we believe that we have passed the low point in inflation. Going forward, due to the mounting risk of higher food inflation due to the now confirmed El Niño, higher administered prices and normalising Covid-related components of inflation, we believe inflation will remain sticky around 5.5% over the longer term in South Africa. This, combined with the South African Reserve Bank (SARB)'s stated intention of maintaining a higher real policy rate to attract capital amidst a deteriorating fiscal backdrop, suggests limited scope for easing in 2024. We see 50bps to 75bps of rate cuts, with these commencing only towards the tail end of 2024, taking the nominal repo to 7.5% by the end of the first quarter of 2025. This might seem conservative, but current market pricing suggests no rate cuts at all on the horizon, with a real policy of 2.5% to 3.0% versus the SARB's guidance of 2.0% to 2.5% (which is what we factor into our analysis). This does suggest some inflation premium remains priced in the shorter-dated bond yields.

Fiscally, SA remains in a tight spot. Revenue is expected to deteriorate due to lower growth this year, and pressures on expenditure remain high. The government is effectively funding itself at between 8.5% and 9.5% (a combination of short- and long-term borrowing), while nominal growth is, at best, 6.0%. There are only three ways out of this crisis:

Austerity: we could enter into a period of extreme austerity by cutting spending or placing a limit on spending proportionate to revenue. This seems highly unlikely since unemployment is so high, fixed expenditure (wages, grants, interest costs) is at 64% of total expenditure, and we are heading into an election year.

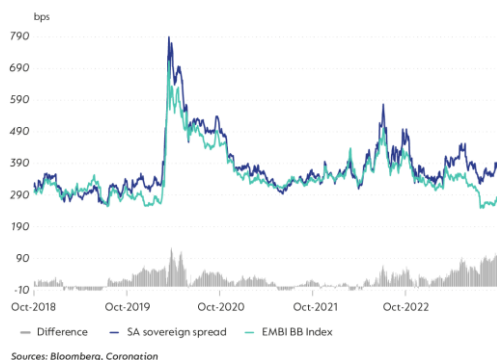
Kickstart growth: we could increase the nominal growth rate by increasing the real growth, but this would require real growth in the 3.0% to 4.0% range (assuming inflation at 5.5%) so that you are at least growing in line with your cost of funding. This is entirely possible but would require drastic and swift action, which seems unlikely in the short term from the current administration.

Reduce costs: we could bring the cost of funding down, either by changing the mix of funding or by utilising resources that could favour a compression in the funding cost.

A combination of the last two would be optimal, but the process around it needs to start now, otherwise SA faces the harsh reality of a forced debt restructuring as budget deficits remain stubbornly around 6.0% of GDP and our debt load flirts with the prospect of being 90% of GDP.

The pricing of SA assets has over the recent past, both through performance relative to other emerging markets and increased required risk premium, priced a large portion of this fiscal deterioration in. This is indicated in the figures below, which show the SA sovereign spread remaining wide relative to the BB peer group and the relative performance of SA local currency debt relative to its emerging market peers over the last 12 months.

SA SOVEREIGN SPREAD VS EMBI BB INDEX



SA VS EMERGING MARKET BOND PERFORMANCE (ZAR)



The global risk-free rate has been and will continue to be a key driver of not only emerging market bond yields but also local bond yields (clearly evidenced by the behaviour over Q3-23). It is, therefore, important for local bond investors to understand the risks that are currently embedded in the global risk-free rate and the path thereof. We believe there are three important points to consider. Namely, the possibility of a US recession in the next 12 months, what this could mean for bond yields given their current implied real rates, and the risk characteristics of the asset.

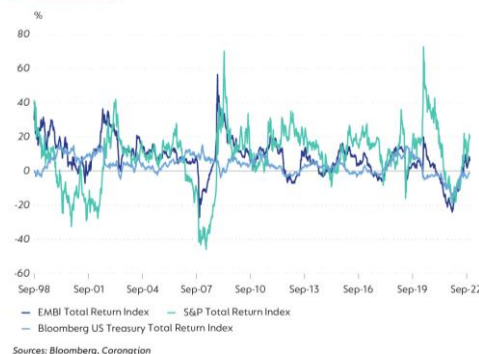
The probability of a US recession has come down quite significantly over the quarter but still remains quite high. In addition to this, the recent rise in long-term bond yields combined with tightening credit conditions would further increase the probability of recession through the increased cost of capital. The impending recession might not be as severe as previous experiences of 2001, 2007 or 2020, but should be sufficient to turn the rate cycle in the US, hence providing some top-side support to US bond yields over the next 12 months.

US inflation has come off considerably over the last year to current levels of 3.6%. It is expected to further decelerate, albeit at a slower pace, to an average of 2.5% in 2024. At current inflation, the implied real rate on offer in US 10-year bonds is just above 1.0%, due not only to the decrease in inflation but also due to the move higher in yields over the last quarter. Prior to the Global Financial Crisis (GFC), the implied real yield averaged 2.0%, while in the last decade (prior to Covid), it averaged 0.6%. If current levels on the US 10-year bond are maintained and inflation declines to the expected 2.5% average in 2024, this would further push up the implied real yield to well above the pre-GFC average. Given the higher debt load in the US and the expected fiscal contraction, it is unlikely that real yields in excess of 2.0% can be sustained in the US long bond, and one would expect the new long-term average to be somewhere in the range of 1.0%-2.0%. This further suggests that US 10-year bonds are approaching what could be interpreted as cheap valuations relative to longer-term expectations.

The US dollar and bond yields have long enjoyed the status of being safe-haven assets. There has been quite a bit of conjecture over the recent past around these assets losing this status. It is true that central banks are diversifying reserve holdings and that, at the margin, the US dollar is a smaller proportion of the total, but it still constitutes by far the largest proportion of foreign assets held by most governments/central banks. The US dollar is the unit of exchange in economic transactions far in excess of those that involve the US directly. This is unlike any reserve currency of the past. The implicit institutional underpin to a reserve currency is important. The US dollar's role is underpinned by the understanding that the US Treasury and its financial, legal and regulatory institutions will honour the transaction. It is possible that the same faith in alternative institutions has not yet been established. It is thus unlikely that these assets will lose their safe-haven status over the medium term.

The following figure shows the rolling one-year returns of the S&P Index, JPM EMBI Index and US Treasury Index. The key thing to point out is that, in times of high stress and volatility, US bonds offer more protection than "risky" assets. It thus points to a favourable risk/reward proposition through its lower correlation to risk assets, especially if valuation offers a decent margin of safety.

ROLLING ONE-YEAR RETURNS: EMBI, S&P, US TREASURY (TOTAL RETURN)



The high probability of a US recession in the next 12 months, high embedded real premium in US bond yields and their favourable risk/reward proposition driven by their safe-haven status suggest that we are approaching, if not already at, a fairly attractive valuation in the US long bond.

ILBs have offered protection to investors over the last quarter. However, current breakeven inflation across the ILB curve averages between 5.5% and 6.0%, which is well above even our own expectations for inflation over the medium term (Figure 6). It is only the short-dated ILB (1025, 1.3 years to maturity) that flags as cheap from a valuation perspective. Risks on the inflation front still remain elevated, however, one has to acknowledge that valuation has shifted more in favour of nominals. As such, although we still believe ILBs warrant a position in bond portfolios due to their inherent inflation protection, some moderation of that allocation in favour of nominal bonds is prudent at this stage.

SA's fundamental outlook continues to be plagued by inflation that will remain above the midpoint of the target band, a deteriorating fiscal outlook and very little confidence in the current administration's ability to correct the trajectory. Local assets have continued to trade poorly, with the risk premium embedded in local bonds remaining elevated. The recent turmoil in global bond markets has added a further spanner in the works as the prospect of higher rates for longer and a deteriorating debt outlook weighs on bond yields. However, the current valuation of global bond yields suggests an increased margin of safety, which could provide some comfort to global bond investors. This, combined with the healthy risk premium on offer in local bond yields, should offer some support to our local bond market.

Portfolio managers

Nishan Maharaj, Steve Janson and Seamus Vasey
as at 30 September 2023

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) Ltd (FSP 548), 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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