

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

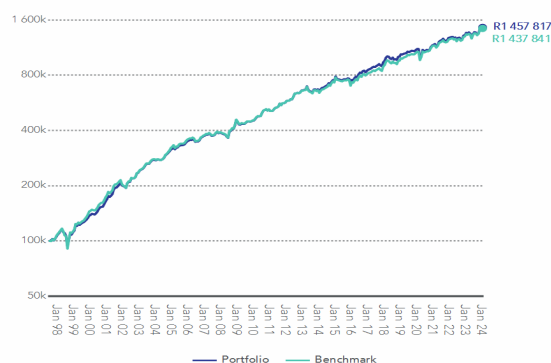
CLASS R as at 31 January 2024

ASISA Fund Category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 3.91 billion
NAV	1367.02 cents
Benchmark	BEASSA ALBI Index
Portfolio manager/s	Nishan Maharaj, Seamus Vasey & Steve Janson

Total Expense Ratio	1 Year	3 Year
Fund management fee	0.85%	0.85%
Fund expenses	0.73%	0.73%
VAT	0.01%	0.01%
Transaction costs (inc. VAT)	0.11%	0.11%
Total Investment Charge	0.00%	0.00%
	0.85%	0.85%

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)	1357.8%	1337.8%	20.0%
Since Launch (annualised)	10.6%	10.6%	0.1%
Latest 20 years (annualised)	8.7%	8.6%	0.1%
Latest 15 years (annualised)	8.2%	8.1%	0.2%
Latest 10 years (annualised)	8.4%	8.4%	0.0%
Latest 5 years (annualised)	7.0%	7.8%	(0.8)%
Latest 3 years (annualised)	7.6%	7.4%	0.1%
Latest 1 year	7.1%	7.3%	(0.3)%
Year to date	0.7%	0.7%	0.0%

	Fund
Modified Duration	5.8
Yield (Net of Fees)	10.6%

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	70.4%	70.4%

	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 2024	0.75%												0.75%
Fund 2023	3.01%	(0.85)%	1.40%	(1.56)%	(5.27)%	4.95%	2.50%	(0.43)%	(2.59)%	1.64%	5.15%	1.65%	9.46%
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%

PORTFOLIO DETAIL

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	82.9%
Banks: Senior Debt	6.6%
Banks and Insurers: NCDs & Deposits	4.9%
Banks: Subordinated debt (>12m)	2.8%
State Owned Enterprises	2.0%
Banks: Subordinated debt (<12m)	0.4%
Other Corporates	0.2%
REITs	0.2%
Insurers	0.0%
Total	100.0%

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic Of South Africa	82.9%
Nedbank Ltd	5.3%
Standard Bank Of SA Ltd	4.4%
Firststrand Bank Ltd	2.3%
Airports Company Of Sa Ltd	1.8%

MATURITY PROFILE DETAIL

Sector	31 Jan 2024
0 to 3 Months	5.0%
3 to 6 Months	0.1%
6 to 9 Months	0.1%
9 to 12 Months	0.6%
1 to 3 Years	5.0%
3 to 7 Years	8.2%
7 to 12 Years	26.0%
Over 12 Years	54.9%

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.

The Covid crisis of 2020 ushered in a new era of uncertainty and volatility that has continued to roil financial markets. This continued unabated as 2023 commenced with banking crises in the US and EU, followed by growing concerns about the implications of higher interest rates for longer. This was compounded by intensifying geopolitical tensions, with the ongoing conflicts in Ukraine and the Middle East adding to the list of potentially catastrophic, destabilising global events. The last quarter of the year saw a de-escalation of market uneasiness as the Federal Reserve Board (the Fed) pivoted towards a more dovish rate outlook. South Africa (SA) experienced much of the same during the course of the year, but with continued power outages impeding growth and further policy missteps leading to reduced confidence in the current administration.

The performance numbers as at year-end hide the tremendous uncertainty and uneasiness that most investors felt throughout the year. Dollar index declines (3% in 2023) spurred stronger emerging market performance, with many of SA's peers gaining well over 5% against the dollar. SA, due to its many problems, significantly lagged its peer group's currency performance, with the rand down 7% versus the US dollar. This was also reflected in the marginal widening of SA's credit spread relative to both emerging and developed markets. Despite a rollercoaster of a year in global bond markets, 10-year bonds in both the US and SA settled only 30 to 40 basis points (bps) wider from where they started in 2023. Over the last year, the FTSE World Government Bond Index returned 5.2% in US dollars, with the local FTSE/JSE All Bond Index (ALBI) returning 9.7% in rands (2% in US\$). This was a strong performance by local bonds, as cash and inflation-linked bonds (ILBs) only returned 7.8% and 7.1%, respectively, over the same period. Despite local bond yields still ending the year wider, it was the high starting yields on offer and relative outperformance of the bonds with a maturity of less than 12 years that bolstered the ALBI's returns.

2024 is the year of the wood dragon in the Chinese zodiac and is meant to bring evolution, improvements, and abundance. It is the perfect time for rejuvenated beginnings and laying the foundation for long-term success. SA is in deep need of all these things as it continues to tread water near the abyss of despair and irrelevance. The country has three major problems that include:

- **Electricity shortages:** Underinvestment in both generation and transmission capacity has led to severe power shortages that have capped growth. Even if the system moved towards an acceptable level of performance, it would still cap growth in the 2%-2.5% range. Massive bailouts have also diverted funds away from productive spending and strained government finances.

- **Logistic constraints:** Underinvestment and incompetent management have seen a disastrous fall from grace in the internal transport and harbour networks. This has cost the country significant revenue due to lost exports and has also meant that it could not maximise the benefits of the recent commodity boom. In addition, further funds will need to be diverted to sure up Transnet's balance sheet and return the network to an acceptable level of capacity.

- **A frail implementation of the rule of law:** This is both in the implementation of State-owned company governance controls and the policing of serious crime on the ground. The failure to ensure the prevalence of the rule of law in the country has led to reduced business and investor confidence as well as a significant loss of profits due to high levels of corruption and illegal enterprise. Once again, government finances are placed under further pressure due to the need for capital injections and lost tax revenue.

The electricity and logistic problems are a direct result of government's inexperience in these industries and the solution would be for government to take a back seat by providing a platform for private sector investment into those industries, thus allowing the private sector to drive the reform. There is precedent for this littered across the globe. Even in the US, where the space programme was a crowning achievement by the State and was used to propel innovation in that economy, the private sector has now taken over to drive the next phase of evolution (SpaceX, Virgin Galactic and Blue Origin).

The repairing of the rule of law will take significant resources to rebuild credibility and competence in key institutions, weed out corrupt entities and arrest the growth of corrupt enterprise. The resources being drained by the electricity and logistic problems could be utilised to restore law and order, provided the private sector is enabled to participate here too. There are no quick or easy solutions to any of these issues, but there are solutions. They do, however, require swift action to ensure the country does not fall off the cliff.

The prolonged prevalence of these issues has meant that growth has remained lacklustre and government finances have remained strained. More recently, we have seen increased pricing pressures as a result of the higher cost of doing business in the SA. This unfortunately results in a grim outlook with longer term growth in the 1.5%-2% range, inflation uncomfortably around 5.5%, budget deficits of around 5%-6% of GDP and the debt to GDP ratio on the path to 90%.

Local bond yields have felt most of the pressure from the deteriorating fundamental backdrop as yields remain elevated, well above nominal GDP and with no sign of respite. This situation remains unsustainable and, although SA government has some breathing room over the next three to five years due to levers that can be utilised to fund the country, these are only temporary reprieves. If crucial reforms are not enacted, then we will remain firmly on the path to financial obscurity.

In the face of such a depressing context, it is hard to find a reason to own any asset in SA. However, at Coronation we aim to divorce emotion from our investment decisions and focus on the valuation of assets. This helps us to understand whether the fundamental risk is sufficiently represented in the pricing of these assets.

A further deterioration in fundamentals from here will result in a further widening of SA bond yields. In order to assess the protection that the valuation offers, we assume a 100bps widening in the 8-year, 11-year and 20-year bonds from current levels every year, for the next five years (end yields of 14%, 15% and 17%, respectively, assuming the benefit of rolldown). In addition, we assume that cash rates will widen 200bps to 10.25% by the end of the period.

Even with such conservative assumptions, because of the high starting yields and the steepness of the yield curve, the 8-year and 11-year bonds outperform cash, assuming a 5-year holding period (coupons reinvested at prevailing cash rates). The 20-year bond lags due to the higher modified duration it carries and because the yield curve is pretty flat after the 12-year maturity date. Thus, if one assumes no permanent loss of capital in the next five years due to default/restructuring, sub 11-year bonds still provide an attractive opportunity relative to cash.

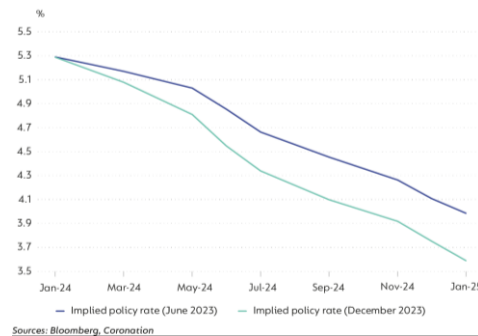
For completeness, we ran a similar exercise for ILBs. The key difference is that we only assume a 75bps per year sell-off (ending yields of 7.9%, 8%, and 8.6% in each of the ILBs (this assumes inflation expectations worsen) and we also assume that inflation averages 6.5% over the period. The result from this exercise is that the 7-year ILB still outperforms cash and even nominal bonds over the five-year holding period, given its high starting yield. Due to the higher duration that ILBs carry and because inflation breakevens are already above 6% for maturities longer than nine years, these bonds struggle to match cash and nominal returns.

The principal conclusions from the above exercise are that bonds with a maturity of less than 12 years encompass the highest risk premium and thus offer holders a significant cushion against further fundamental deterioration. In addition, 7-year ILBs offer a diversified opportunity for enhanced returns in the event that inflation continues to deteriorate as a result of further economic worsening.

We would be remiss in not acknowledging that the SA bond market is but a tiny cog in a much larger, macro bond landscape. Therefore, major changes in global bond valuations will have a significant impact on local bond performance. The current path of US monetary policy will dictate the path of US bond yields and, hence, have a significant impact on local bond yields as has already been

the case in the last quarter. The graph below shows that Fed policy rate expectations have already turned quite dovish, with the market expecting almost seven rate cuts, up from the expectation of four, six months ago.

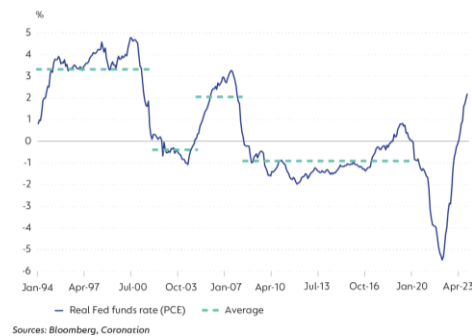
THE FED'S IMPLIED POLICY RATE



Sources: Bloomberg, Coronation

This might seem as if it's an extreme change in pricing, but one has to contextualise what it means. Firstly, the graph below shows that, over the last 30 years, the real Fed funds policy rate (measured against the Fed's preferred inflation measure, Personal Consumption Expenditures Price Index (PCE)), has been as high as 4.5% and as low as -5.5%. The average over extended cycles has been in the range of 3.4% to -1%, however during periods of high inflation (of which there have only been two in the last 30 years), it has been between 2% to 3.4%. US PCE was last close to current levels during the 2005-2007 period, in which the real policy rate averaged 2%. Therefore, given the current expected one-year policy rate, assuming a required real policy rate of 2%, suggests an expected PCE outcome of between 1.6% and 1.7%. Contrast this to current US PCE of 3.1% and market expectations of this measure only reaching 2% by end 2024, and it's not a far stretch to conclude that current market pricing is slightly optimistic. Pricing probably needs to be pared back by around one to two rate cuts. However, this does not translate into significantly higher US bond yields. In June 2023, the market was still expecting the Fed to hike rates once or even twice more, whereas now the question is how much rates will come down versus if they will.

REAL FED FUNDS RATE



Sources: Bloomberg, Coronation

It is likely that some repricing of expectations will occur over the first quarter of this year, however, the global bond environment has definitely moved from being a headwind for emerging markets, as it was for most of 2023, to, at worst, being a more passive force. Short-end US treasury yields (2-year) peaked at close to 5.2% in mid-2023, a level only seen 20 years ago, and lured capital away from emerging markets. As yields continue their path lower with the realisation of Fed rate cuts, it is also likely that capital starts to flow towards the high yields of emerging markets. Emerging markets, including SA, stand to benefit from the flow of funds out of developed markets as policy rates shift lower. In SA's case, this might provide much-needed funding for our large deficit, given the elevated levels of our bond yields.

Local credit markets have remained relatively subdued. Net issuance this year has been paltry, with most of it on the back of refinancing maturing bank (senior and subordinated) debt. Despite the poor fundamental backdrop in SA, credit spreads have continued to tighten this year as net supply has dwindled. Senior bank credit has compressed significantly, with the gap between 5-year and 7-year terms almost non-existent. The compression of term premiums in credit spreads indicates a market that is hungry for yield at any cost and not what one would expect in the poor economic environment. Subordinated bank credit (AT1 and AT2) has seen a similar compression, with AT2 spreads now just 30bps to 40bps above senior spreads. This compression is quite dramatic and, although banks remain well-capitalised and very far from failure, given the nature of the instruments, we feel current pricing to be too optimistic. Given their tight valuations, we consider current credit spreads unattractive and see better alternatives elsewhere. Current pricing of global interest rates and credit markets offers an attractive alternate risk-adjusted opportunity for investors, especially if one is able to capture the cross-currency interest rate differential, which enhances the yield and hence the risk buffer.

The last 18 months have seen aggressive rate-hiking campaigns across most developed and emerging markets. Inflation is easing, which should allow central banks to begin easing monetary policy. This monetary policy pivot should help support emerging markets as capital flows towards the higher yields on offer. SA, specifically, is in dire need of capital to fund its burgeoning deficits, as growth falters and inflation remains towards the upper end of targets. This reprieve will only prove temporary unless reform implementation is accelerated through increased private sector participation. For now, SA's bond yields still provide an attractive alternative to cash given their high embedded risk premium, albeit some of this premium has reduced with the rally last quarter. We would advocate slightly overweight positions in bond portfolios, focused on maturities of less than 12 years, together with decent allocation to sub 8-year maturity ILBs.

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