

## 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 12 months and longer.

## 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 0.35% (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](http://www.coronation.com)

## WHO ARE THE FUND MANAGERS?



**NISHAN MAHARAJ**  
BSc (Hons), MBA



**STEVE JANSON**  
BBusSc



**SEAMUS VASEY**  
BCom (Hons), MSc

## GENERAL FUND INFORMATION

Fund Launch Date	1 August 1997
Fund Class	P
Class Launch Date	1 April 2015
Benchmark	BEASSA ALBI Index
Fund Category	South African – Interest Bearing – Variable Term
Regulation 28	Does not comply
Income Distribution	Semi-annually (March & September)
Bloomberg Code	CORSPBP
ISIN Code	ZAE000202453
JSE Code	CBFCP

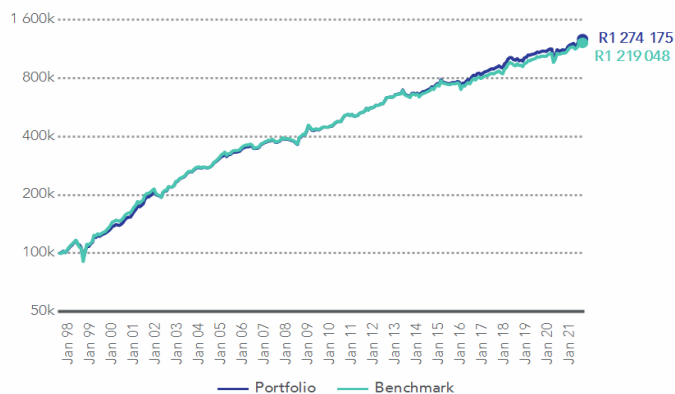
CLASS P as at 31 July 2021

<b>Fund category</b>	South African - Interest Bearing - Variable Term
<b>Launch date</b>	01 April 2015
<b>Fund size</b>	R 3.13 billion
<b>NAV</b>	1460.89 cents
<b>Benchmark/Performance</b>	BEASSA ALBI Index
<b>Fee Hurdle</b>	
<b>Portfolio manager/s</b>	Nishan Maharaj, Seamus Vasey & Steve Janson

Total Expense Ratio	1 Year	3 Year
Fund management fee	0.41%	0.41%
Fund expenses	0.34%	0.34%
VAT	0.01%	0.02%
Transaction costs (inc. VAT)	0.05%	0.05%
Total Investment Charge	0.00%	0.00%
	0.41%	0.41%

## 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)	1174.2%	1119.0%	55.1%
Since Launch (annualised)	11.2%	11.0%	0.2%
Latest 20 years (annualised)	9.8%	9.4%	0.5%
Latest 15 years (annualised)	9.0%	8.6%	0.4%
Latest 10 years (annualised)	9.0%	8.5%	0.5%
Latest 5 years (annualised)	8.9%	8.9%	0.1%
Latest 3 years (annualised)	8.0%	8.7%	(0.7)%
Latest 1 year	14.7%	13.9%	0.8%
Year to date	7.1%	5.9%	1.3%

## Fund

Modified Duration	6.9
Yield	9.3%

## RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.8%	8.6%
Sharpe Ratio	0.30	0.25
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	70.8%	70.8%

## 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 2021	0.86%	1.03%	(3.16)%	1.87%	4.24%	1.52%	0.72%						7.15%
Fund 2020	1.23%	(0.05)%	(10.77)%	3.65%	7.15%	(1.39)%	0.32%	1.13%	(0.57)%	0.59%	3.72%	2.08%	6.21%
Fund 2019	2.77%	(0.30)%	0.94%	0.48%	0.60%	1.83%	(0.58)%	0.96%	0.86%	(0.29)%	(0.24)%	1.70%	9.03%

## PORTFOLIO DETAIL

## ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	83.5%
State Owned Entities	1.1%
Banks and Insurers: NCDs and Deposits	4.4%
Banks: Senior Debt	6.8%
Banks: Subordinate Debt (<12m)	0.0%
Banks: Subordinate Debt (>12m)	3.5%
Insurers	0.0%
Other corporates	0.6%
REITS	2.8%
Other (Currency Futures)	(2.7)%
<b>Total</b>	<b>100.0%</b>

## TOP 5 ISSUER EXPOSURE

	% of Fund
Republic of South Africa Government Bonds	82.8%
FirstRand Limited	4.3%
Standard Bank of SA Ltd	3.4%
Nedbank Ltd	1.9%
Growthpoint Properties Ltd	1.7%

## MATURITY PROFILE DETAIL

Sector	31 Jul 2021
0 to 3 Months	2.0%
3 to 6 Months	0.0%
6 to 9 Months	(0.9)%
9 to 12 Months	1.0%
1 to 3 Years	6.1%
3 to 7 Years	4.3%
7 to 12 Years	25.1%
Over 12 Years	62.5%

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
31 Mar 2021	01 Apr 2021	62.45	62.45	0.00
30 Sep 2020	01 Oct 2020	62.55	62.55	0.00
31 Mar 2020	01 Apr 2020	64.45	64.45	0.00
30 Sep 2019	01 Oct 2019	63.03	63.03	0.00

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

South Africa's (SA) recovery has been elevated by the current global environment, translating into strong asset price performance. The rand is up c.3% against the US dollar this year, with most of that performance coming through in the second quarter of the year (Q2-21). This is pretty much in line with its emerging market peer group (except Brazil, which has enjoyed a more significant recovery in its currency following the commencement of its preemptive rate hiking cycle), but what has set SA apart is the performance of its local bonds.

Despite the yield on the 10-year bond being 30-40 basis points (bps) higher since the beginning of the year, the FTSE/JSE All Bond Index (ALBI) has returned 5% this year (6.9% over the 2Q-2021). This has been led by the strong performance of bonds with a maturity of > 12 years, as the yield curve has continued to flatten. Inflation-linked bonds (ILBs) had a poorer quarter returning c.3% but remain ahead of ALBI returns, year to date (7.7%). Both ALBI and ILB returns remain well ahead of cash for the quarter (0.9%) and the year (1.7%).

SA's economic and asset price recovery has not been solely due to global factors. Local developments, including the lifting of the minimum threshold for energy generation licensing to 100 megawatts; the sale of a majority stake in South African Airways to a local consortium; the sidelining of Ace Magashule, following his arrest by the National Prosecuting Authority; and the sentencing of former president Jacob Zuma to 15 months in prison for not testifying at the Zondo commission, have also helped to improve investor belief in SA's reform agenda.

Inflation has continued to remain well under control and, although it will hover around 5% for the next 18 months, we do not see a sustained move through the top end of the inflation band (6%). The recovery in growth this year is supported by the low base in 2020, the bounce in commodity prices, the rebuilding of inventories, and a slightly more optimistic consumer. Growth this year will be more than 4% and just above 2% in 2022. As a result, one can expect the next move in interest rates to be higher, albeit this would most likely only take place at the end of 2021 or in the first quarter of 2022. Higher growth and higher commodity prices imply stronger tax revenue, which provides more breathing room for the fiscus. In addition to this, government has continued to hold the line on the government employee wage freeze, which keeps SA on the path of fiscal consolidation.

Despite the recent recovery in local bond yields and the flattening of the yield curve, SA bond yields remain elevated, and the curve remains steep. Arguably, the fiscal metrics two years ago were better, but expectations were for significant deterioration.

Currently, fiscal metrics are at their worst since the GFC but will get better over the next two years, suggesting the curve should be flatter. Secondly, bonds yields are very elevated to cash rates. This is illustrated in the bond breakeven rate relative to cash, which measures how much bond yields can sell-off before their return equals cash. Not only are the breakeven rates elevated, but the 5-year and 10-year bonds have very similar breakevens, suggesting the overall level of bond yields remain very elevated relative to cash and price in a significant risk premium. Overall, this suggests there is still significant room for bond yields across the curve to compress (reduce) and the spread between longer-dated bonds and shorter-dated bonds to narrow (flatter yield curve).

Over the last six months, concerns around rising inflation and excess liquidity in global markets have heightened expectations for interest rate normalisation in both developed and emerging market economies. The impact of this will be felt in SA government bonds (SAGBs) through rising global bond yields and a rising repo rate.

The current steepness of the bond curve and high bond breakeven relative to cash suggests a limited passthrough of rising short rates (repo rate) into local bond yields. However, this is not a certainty. All previous episodes of rate hiking in SA have had a knock-on effect in the bond market, resulting in higher bond yields. The current landscape might just mean that the passthrough is reduced. In a rate hiking cycle, shorter-dated bond yields are generally more sensitive to change in cash (repo) rates, while longer-dated bonds yields have a much lower sensitivity.

In the table below, we show the total return of each government bond given a move up in yields over the next two years, e.g., if the R186 yield moves up 2% in the next two years, its total return will be 4.99%. The area shaded in green is when a bond's performance exceeds the performance of the R186 (5-year) and R2030 (9-year). The 5- and 9-year bonds will generally be more sensitive to movements in the repo rate and will experience a much more significant move higher in yield than the rest of the curve. Only in the case where all bond yields move up by 2% do the 12-year and 15-year bonds underperform the 5-year and 9-year (see yield increase table below). This reinforces the case for holding bonds in the 12- to 15-year area of the bond curve, as it offers the most attractive return prospects if the repo rate is normalised over the next two years.

### YIELD INCREASE

Bond	Maturity	Move up in yield			
		200.00	150.00	100.00	50.00
R186	21 December 2026	4.99%	5.65%	6.32%	7.00%
R2030	31 January 2030	4.55%	5.65%	6.77%	7.93%
R2032	31 March 2032	4.38%	5.68%	7.03%	8.43%
R2035	28 February 2035	4.23%	5.67%	7.17%	8.75%
R2037	31 January 2037	4.00%	5.52%	7.11%	8.79%
R2040	31 March 2040	3.85%	5.42%	7.08%	8.85%
R2044	31 March 2044	3.51%	5.14%	6.89%	8.76%
R2048	28 February 2048	3.18%	4.86%	6.68%	8.63%

Sources: Coronation, Bloomberg

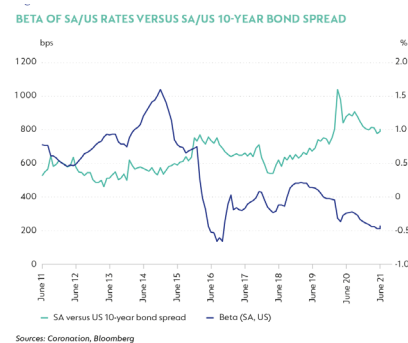
Global monetary policy normalisation will take the form of a tapering in bond asset purchase programmes, followed by a rise in policy rates. This will result in global bond yields moving higher over the next few years. Historically, the pace and magnitude of the rise in global bond yields have had significant repercussions for the local bond market.

More specifically, the more sudden and sizable the sell-off in global bond yields, the larger the rise in local bond yields. Currently, the US 10-year Treasury Bill (a proxy for global bond yields) is at 1.50%, and pricing in the forward market puts expectations for this rate to be at 2% to 2.25% over the next two to three years.

The magnitude of the move is not large by historical standards, although the pace of the repricing will remain unpredictable. Local bonds have generally had a high beta (a relative measure of volatility between two assets) with US 10-year bonds. However, the spread between SA bonds and US bonds are at historically wide levels, primarily due to the deterioration in SA's fiscal metrics.

It is plausible that with SA's fiscal metrics recovering, this spread is too wide and should narrow, implying that even if US bonds were to sell-off, the equivalent sell-off in SA bonds should not be severe. In Figure 4, we look at the rolling two-year beta of SA 10-year bonds to US 10-year bonds versus the spread between the two bonds.

It is quite evident that, as the spread has widened, the beta between the two has decreased; that is, the influence of US rates on SA rates has diminished. This further suggests that the risk premium embedded in SA bonds should absorb a significant amount of the widening in global bond yields.



Sources: Coronation, Bloomberg

In constructing robust portfolios, we must look for assets that provide us with some protection if the tail risk becomes a reality. ILBs provide portfolios with protection in the event inflation comes in higher than expectations. Currently, the real yields on offer are higher than longer-term averages, and the required actual inflation average required to provide a better return than nominal bonds is quite low in certain areas of the curve. Figure 5 shows the various ILBs on offer and the required inflation average required over the maturity of the bond to perform in line with their nominal bond equivalent. The longer the maturity of the bond, the larger the payoff symmetry; that is, if you are certain inflation will average above the minimum required level, it pays more to own the longer maturity. Our current expectations are for inflation to hover around 5% for the next 12 to 15 months, making ILBs out to 2029 quite attractive. Longer dated ILB's will have a better return profile, but the hurdle for them to outperform nominal bonds is significantly higher, making them less attractive.

### IMPACT OF INFLATION ON INFLATION-LINKED BONDS

Bond	Maturity	Current real yield	Inflation required to beat nominal bond	Current nominal bond equivalent
R197	7 December 2023	1.3300	4.36	5.75
I2025	31 January 2025	2.2100	4.13	6.43
I2029	31 March 2029	3.1500	5.27	8.56
I2033	28 February 2033	4.0200	5.56	9.81
I2038	31 January 2038	4.2400	5.94	10.43
I2046	31 March 2046	4.2700	6.03	10.55
I2050	31 December 2050	4.2400	5.98	10.47

Sources: Coronation, Bloomberg

The prospects for the local economy have improved as reform progress has gathered momentum, and global developments have provided tailwinds to the local recovery. Inflation is moving higher but should remain under control despite uneasiness around global inflation. The recovery in growth should gain more traction and spill into next year, which will provide more breathing room for the fiscus.

SAGBs, despite their recovery in the last quarter, still embed a significant risk premium relative to cash. The steepness of the yield curve makes the 12- to 15-year area attractive, even if the local rate hiking cycle starts sooner than expected. For bond portfolios, we continue to advocate overweight exposure to SAGBs focused in the 12- to 15-year area of the curve and allocations to ILBs with a maturity of less than eight years.

**Portfolio managers**  
Nishan Maharaj, Steve Janson and Seamus Vasey  
as at 30 June 2021

## 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](http://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. Growth charts are shown in logarithmic scale (base 2).

## 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 P NAV prices with income distributions reinvested. Class R NAV prices were used for the period prior to the launch of Class P. All underlying price and distribution data is sourced from Morningstar. Performance figures are quoted after the deduction of all costs (including manager fees and trading costs) incurred within the fund. Note that individual investor performance may differ as a result of the actual investment date, the date of reinvestment of distributions and dividend withholding tax, where applicable. Annualised performance figures represent the geometric average return earned by the fund over the given time period. Unannualised performance represents the total return earned by the fund over the given time period, expressed as a percentage.

## WHAT IS THE TOTAL EXPENSE RATIO (TER) AND TRANSACTION COSTS (TC)?

TER is calculated as a percentage of the average net asset value of the portfolio incurred as charges, levies and fees in the management of the portfolio. The TER charged by any underlying fund held as part of a fund's portfolio is included in the fund expenses portion of the TER, but trading and implementation costs incurred in managing the 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 September 2020 (updated annually). The 3 year TER is for a rolling 36-month period to the last 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](http://www.coronation.com)

## IMPORTANT INFORMATION REGARDING TERMS OF USE

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