

## 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](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

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

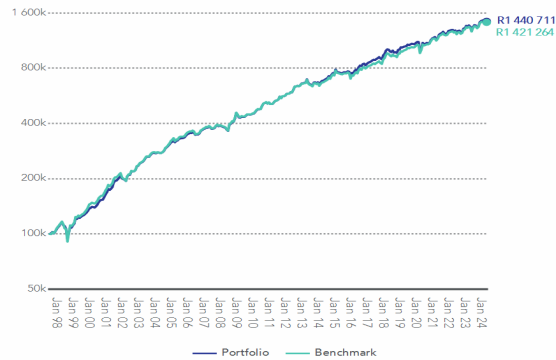
CLASS R as at 30 April 2024

<b>ASISA Fund Category</b>	South African - Interest Bearing - Variable Term
<b>Launch date</b>	01 August 1997
<b>Fund size</b>	R 3.75 billion
<b>NAV</b>	1288.91 cents
<b>Benchmark</b>	BEASSA ALBI Index
<b>Portfolio manager/s</b>	Nishan Maharaj, Seamus Vasey & Steve Janson

Total Expense Ratio	1 Year	3 Year
Fund management fee	0.85%	0.86%
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%	0.86%

## 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)	1340.7%	1321.3%	19.4%
Since Launch (annualised)	10.5%	10.4%	0.1%
Latest 20 years (annualised)	8.6%	8.5%	0.1%
Latest 15 years (annualised)	8.3%	8.1%	0.2%
Latest 10 years (annualised)	7.7%	7.8%	(0.1)%
Latest 5 years (annualised)	6.5%	7.2%	(0.7)%
Latest 3 years (annualised)	7.3%	7.2%	0.1%
Latest 1 year	6.9%	6.8%	0.1%
Year to date	(0.4)%	(0.4)%	0.0%

	Fund
Modified Duration	6.0
Yield (Net of Fees)	11.7%

## RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.8%	8.5%
Sharpe Ratio	0.24	0.22
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	70.1%	70.1%

	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%	(0.57)%	(2.08)%	1.50%									(0.43)%
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 INSTRUMENT TYPE

	Domestic Assets	International Assets
Fixed Rate bonds	89.7%	8.4%
Cash and Money Market NCDs	3.4%	(3.0)%
Inflation-Linked bonds	1.6%	0.0%
Floating Rate bonds	0.0%	0.0%
<b>Total</b>	<b>94.6%</b>	<b>5.4%</b>

## ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	86.5%
Banks: Senior Debt	6.4%
State Owned Enterprises	3.8%
Other Corporates	1.5%
Banks: Subordinated debt (>12m)	1.3%
Banks and Insurers: NCDs & Deposits	0.4%
REITs	0.1%
Banks: Subordinated debt (<12m)	0.0%
<b>Total</b>	<b>100.0%</b>

## TOP 5 ISSUER EXPOSURE

	% of Fund
Republic Of South Africa	85.5%
Standard Bank Of SA Ltd	4.4%
Firststrand Bank Ltd	2.4%
Transnet Soc Ltd	2.0%
Airports Company Of Sa Ltd	1.8%

## MATURITY PROFILE DETAIL

Sector	30 Apr 2024
0 to 3 Months	0.5%
3 to 6 Months	0.1%
9 to 12 Months	0.1%
1 to 3 Years	4.0%
3 to 7 Years	23.0%
7 to 12 Years	31.2%
Over 12 Years	41.1%

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
28 Mar 2024	02 Apr 2024	61.27	61.27	0.00
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

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

Markets started 2024 intoxicated with the euphoria of the Federal Reserve Board's (Fed's) impending monetary policy pivot. Risk assets rode high on the wave of optimism for most of the first quarter (Q1-24), with emerging markets doing especially well. Unfortunately, as is generally the case, this optimism faded towards the end of the quarter, with the market's initial pricing of 175 basis points (bps) of rate cuts for 2024 tapering to the Fed's projections of only 75bps. South Africa (SA) has done little to positively differentiate itself from the rest of the emerging market basket. Uncertainty on the outcome of the local elections, possible coalitions and the policy implications thereof weighed on the performance of the rand and bonds, causing further underperformance relative to EM peers.

The FTSE/JSE All Bond Index (ALBI) was down 1.8% over the quarter, driven by its poor performance in February and March, as bond yields rose close to 100bps, inching closer to the highs last seen during the Covid crisis. Most of this poor performance was driven by the performance of the long end of the yield curve (>12 years). Inflation-linked bonds (ILBs) performed slightly better, returning -0.37%, as elevated real yields and stubborn inflation continued to help the asset class. However, over the last 12 months, both the ALBI's (4.2%) and ILB's (5.7%) performance remain significantly behind cash (8.2%). Given that the rand was also down c.5% versus the US dollar over the last 12 months, SA bond performance translated to dollars would have fared only marginally better than global bond performance over the same period (FTSE World Government Bond Index [WGBI] was down 0.8% in US dollars).

SA's risk premium has been steadily on the rise, as is clear from the widening of bond yields relative to both the US and its emerging market peer group. This can be attributed partially to further fundamental deterioration and increased policy uncertainty due to the upcoming national elections.

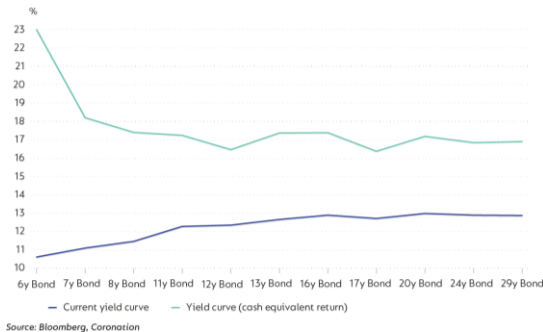
Furthermore, as at the end of December 2023, the market was pricing that the South African Reserve Bank's Monetary Policy Committee would cut the repo rate by 75bps by the end of 2024, but recent pricing suggests that the repo rate will remain unchanged until the end of 2025. Market expectations for inflation are for it to average 4.5% in 2025, which implies a real repo rate of c.3.5% for most of the forecast period. We expect inflation to remain stickier and average 5.4% in 2025. Our stickier inflation forecasts are all supply-side based due to higher food prices driven by the effects of El Niño, a weaker rand translating into higher imported inflation and the higher cost of doing business in SA as a consequence of inadequate network infrastructure. However, as we have previously argued, with real growth struggling to break above 1.5%, policy settings could be regarded as excessively restrictive and, as such, we would view a reduction in the policy rate of 0.5%-0.75% starting in November 2024. This would still maintain a real policy rate of 2% based on our inflation forecasts.

The outcome for the election will do little to improve the current trajectory of fiscal policy, which remains the Achilles heel of the economy. National Treasury continues to project a picture of fiscal consolidation based on expenditure restraint and reallocation. Unfortunately, with infrastructure across the country crumbling, from the municipal to the national level, it is highly unlikely that this restraint will materialise. Furthermore, funding markets are demanding a higher risk premium for SA, elevating fixed rate funding levels. Fixed rate funding still forms the majority of National Treasury's funding plan and, as such, financing costs remain well above nominal growth. This implies that the fiscal deficit will continue to remain wide unless growth picks up substantially or the funding mix is changed to lower the cost of funding. The growth lever will take much longer to enact, which only leaves the funding mix as a means to buy time. Options here are numerous, including floating rate notes, short-term government bonds, concessional financing and shortening the issuance profile. All of which could delay a day of reckoning in funding markets to buy time for much-needed reforms to be enacted timeously.

Fortunately, the current elevated levels of bond yields provide quite a bit of protection over a medium term horizon. The graphs below show where the current nominal and ILB bond curves are trading and where yields can rise to over the next five years, so that the total return from each of the bonds delivers a return of 9.25% (our expected cash return in a bearish scenario).

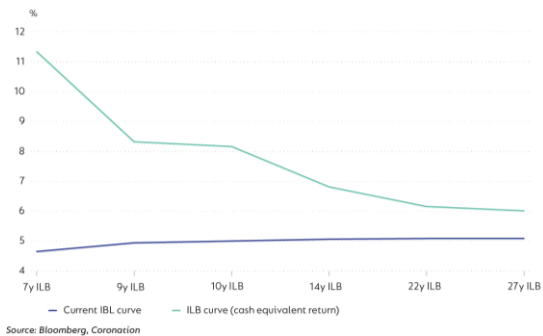
Nominal bonds offer a significant amount of protection with yields able to rise anywhere between 13%-3%, to levels of 23%-17%, depending on maturity. The shorter-dated maturities, because of their high yields and lower modified duration (capital placed at risk to interest rate movements), offer the most amount of breakeven protection, suggesting these maturities of less than 12 years should be favoured within bond portfolios.

### NOMINAL BOND YIELD CURVE



ILBs tell a very similar story, but the magnitude of the allowed real widening is limited given the higher duration that these instruments carry, even though we assume average inflation of 6.5% over the five-year period. Real yields are only able to reach levels on average of about 8% (3% higher than current), with the exception of the 120311, which can widen to c.11% (7% higher than the current yield). In addition, the forward inflation breakevens (difference between nominal and ILB yields in our stressed scenario) widen significantly in the longer-dated maturities to c.10%. This again highlights the attractive protection and valuation that ILBs with a maturity of less than 10 years offer. Despite current inflation breakevens being close to 6%, we still believe that an allocation to these sub-10-year ILBs is prudent for portfolio diversification and protection.

### ILB CURVE



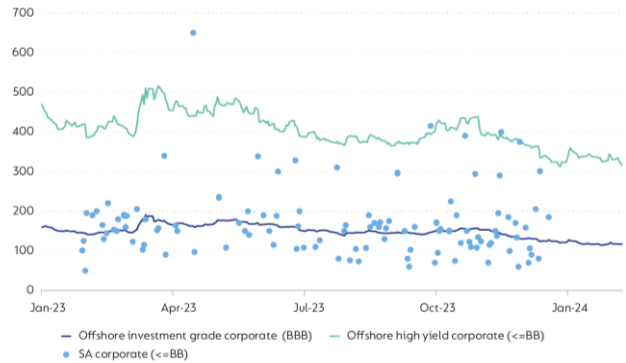
Corporate credit is an incredibly effective tool that can be used to enhance the yield and longer-term performance of fixed income portfolios. However, it is important to understand that yield is earned over a multi-year investment horizon, and a long-term focus

is essential when analysing and investing in the asset class. Managing credit risk is broader than just focusing on the specifics of an individual lender. Rather, we must consider the incremental risk a corporate credit adds to a portfolio in relation to its overall risk profile as well as the effect on portfolio liquidity and ensure that positions are sized correctly.

Low levels of issuance and tightening spreads have created a guise of safety when it comes to investing in the local credit markets. SA credit remains an illiquid market that necessitates detailed scrutiny of underlying fundamentals and relative attractiveness, especially within a deteriorating macroeconomic environment like SA.

We believe that allocating significant amounts of capital to the local credit market is unwise and would represent a substantial opportunity cost in the face of attractive valuations in other, more liquid asset classes. The current level of credit spreads on offer are at historically compressed levels, despite SA being in its weakest economic position. Corporate profitability and credit worthiness are inevitably tied to economic outcomes, with significant polarisation in performance. SA is a sub-investment grade economy and, thus, local credit should trade at high yield spreads. However, as the following figure exhibits, SA trades as an investment grade issuer. The only spreads that trade at the high yield equivalent are riskier issues coming from taxi financing, subordinated tranches of securitisations and bank debt. This also shows how much better value there currently is in offshore credit, which offers higher credit quality and better diversity at much more attractive valuation levels.

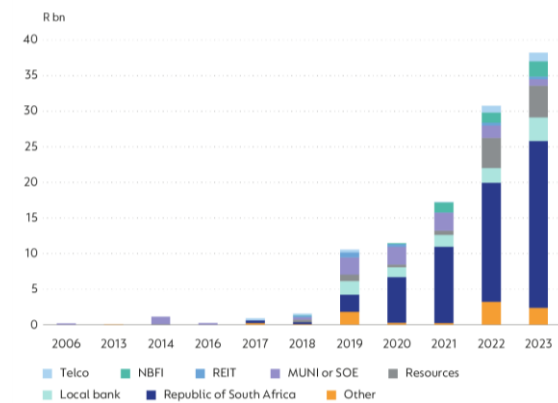
### CORPORATE SPREADS – SA VS OFFSHORE ISSUER



Source: Bloomberg, Coronation

The use of structured products, such as credit-linked notes (CLNs), have become ubiquitous within the local market. This sector of the market has grown exponentially over the last five years and has reached a market size of over R100 billion, but only a third of this market reprices, creating an inaccurate representation of asset volatility and pricing. CLNs mask the underlying/see-through credit risk as the issuing entity (predominantly local banks) is seen as the primary credit risk. The increased usage of CLNs has not expanded the pool of borrowers, rather it has only served to concentrate it. This is due to the ability to limit the volatility of these instruments through not marking them to market based on the underlying asset price movements. This is why CLN repacks of SA government bonds have become so popular over the last five years (figure below). The combination of attractive yields and no volatility is an opportunity that not many would pass up, unless, of course, transparency of pricing is important to the underlying investor. As a result, there can be significant unseen risks within fixed income funds. Investors need to remain prudently focused on finding assets whose valuations are correctly aligned with fundamentals and efficient market pricing.

### SA CREDIT MARKET ISSUANCE PER ANNUM



Source: Nedbank; JSE

The significant reduction in rate cut expectations over the last quarter has tainted the enthusiasm for risk assets. However, the monetary policy pivot still remains in play and, as such, emerging markets should continue to see supportive flows into their markets. Idiosyncratic SA factors have led to further underperformance of SA assets relative to the peer group. Low growth, sticky inflation and burgeoning deficits will continue to weigh on the longer-term outlook for SA, unless reform implementation is accelerated through increased private sector participation. SA's bond yields remain elevated but still provide an attractive alternative to cash given their high embedded risk premium. We would advocate slightly overweight positions in bond portfolios, focused on maturities of less than 12 years, together with decent allocation to sub-10-year maturity ILBs and very little allocation to local credit.

**Portfolio managers**  
Nishan Maharaj, Steve Janson and Seamus Vasey  
as at 31 March 2024

<sup>1</sup> Longer-dated inflation-linked bond maturing in 2023

<sup>2</sup> Valuations are not regularly adjusted to mirror their current value

**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](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.

**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](http://www.coronation.com)

**IMPORTANT INFORMATION REGARDING TERMS OF USE**

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