

## 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

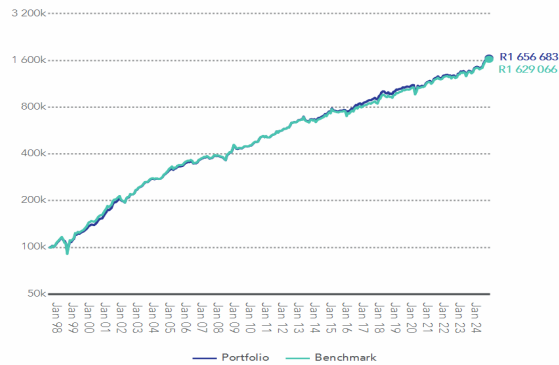
CLASS R as at 31 October 2024

<b>ASISA Fund Category</b>	South African - Interest Bearing - Variable Term
<b>Launch date</b>	01 August 1997
<b>Fund size</b>	R 3.73 billion
<b>NAV</b>	1416.50 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	0.86%	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%
	0.86%	0.86%

## PERFORMANCE AND RISK STATISTICS

## GROWTH OF A R100,000 INVESTMENT (AFTER FEES)



## PERFORMANCE FOR VARIOUS PERIODS (AFTER FEES)

	Fund	Benchmark	Active Return
Since Launch (unannualised)	1556.7%	1529.1%	27.6%
Since Launch (annualised)	10.9%	10.8%	0.1%
Latest 20 years (annualised)	8.9%	8.7%	0.1%
Latest 15 years (annualised)	9.1%	9.0%	0.1%
Latest 10 years (annualised)	8.4%	8.4%	0.0%
Latest 5 years (annualised)	8.9%	9.4%	(0.6)%
Latest 3 years (annualised)	10.3%	10.5%	(0.2)%
Latest 1 year	22.4%	21.3%	1.1%
Year to date	14.5%	14.1%	0.4%

	Fund
Modified Duration	6.1
Yield (Net of Fees)	10.1%

## RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.9%	8.5%
Sharpe Ratio	0.29	0.26
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 2024	0.75%	(0.57)%	(2.08)%	1.50%	0.79%	5.44%	4.02%	2.41%	3.86%	(2.20)%			14.49%
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	82.5%	8.7%
Cash and Money Market NCDs	4.0%	(1.5)%
Inflation-Linked bonds	5.3%	0.0%
Floating Rate bonds	1.0%	0.0%
<b>Total</b>	<b>92.8%</b>	<b>7.2%</b>

## ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	82.3%
Banks: Senior Debt	6.5%
State Owned Enterprises	4.2%
Banks and Insurers: NCDs & Deposits	2.5%
Other Corporates	2.7%
Banks: Subordinated debt (>12m)	1.8%
Banks: Subordinated debt (<12m)	0.0%
Insurers	0.0%
<b>Total</b>	<b>100.0%</b>

## TOP 5 ISSUER EXPOSURE

	% of Fund
Republic Of South Africa	81.6%
Standard Bank Of SA Ltd	4.7%
Nedbank Ltd	4.0%
Firststrand Bank Ltd	3.5%
Transnet Soc Ltd	2.2%

## MATURITY PROFILE DETAIL

Sector	31 Oct 2024
0 to 3 Months	2.6%
9 to 12 Months	0.5%
1 to 3 Years	3.5%
3 to 7 Years	18.5%
7 to 12 Years	34.4%
Over 12 Years	40.6%

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest	Dividend
30 Sep 2024	01 Oct 2024	66.76	66.76	0.00
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

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

The biggest risk to SA's recovery and future prosperity remains the fiscus, which needs much higher nominal growth to deal with its laundry list of woes. Risky assets rejoiced in chorus at the near synchronous start to the global rate-cutting cycle. The US Federal Reserve Board (the Fed) provided more reason for exuberance, with a jumbo half a percentage point reduction in lending rates, to mark the start of the rate-cutting cycle. This was the first time in over 20 years that a US cutting cycle, outside of hot wartime or a crisis, has started with such fervour. Global bond markets embraced the chords of jubilation from policymakers, as they rallied into the event, with almost every bond market in the world lower from a yield perspective over the quarter. South African assets, which have been enjoying renewed investor enthusiasm since the formation of the coalition government, topped the performance tables.

South African (SA) bonds returned 10.54% over the quarter, bringing their year-to-date (ytd) and one-year returns to 16.68% and 26.14%, respectively. As can be expected, cash has significantly lagged bond returns, by more than 10% ytd and over one year. Falling inflation has been dreadful for inflation-linked bonds (ILBs). They have managed to outperform cash over all periods; however, they have returned half of their nominal equivalents (4.75% quarter-to-date [qtd], 6.89% ytd and 13.38% over 12 months). The rand has gained c. 6% against the dollar since the start of the year, outperforming its emerging market peer group. This has meant that despite the strong rally in global bond markets, local bonds have outperformed global bonds significantly (FTSE World Government Bond Index returned 6.95% qtd, 2.72% ytd and 11.02% over 12 months in dollars). The primary reason for the strong performance of the local bond market has been a reduction in the risk premium post-elections, which spurred a c. 250 basis point (bps) rally (compression) in bond yields.

The SA 10-year bond is currently at c. 10%, which is still materially above its average of 9% in the previous decade. In determining the sustainability of these levels and the possibility of a further compression in the bond yields, one has to separate cyclical and structural factors to determine whether the current valuation is commensurate with the risks and tailwinds the economy faces over the longer term. Coronation's bottom-up valuation-driven research process focuses on the long-term factors that drive the local economy. This enables us to arrive at a determination of a through-the-cycle estimate of fair value for various assets with due consideration to these factors.

There are two key local drivers for SA bond yields. Firstly, the path of inflation and its implication for monetary policy and, secondly, the health of government finances as presented in the fiscal accounts.

Inflation has seen a dramatic shift from a year ago. Food and fuel prices have retreated significantly, and the strength of the rand has dampened imported inflation. Loadshedding has become less of a constraint on doing business. However, this has, to a certain extent, been offset by the deterioration in the national logistics infrastructure. Our expectations are now for inflation to average 4.5% in 2024 (getting close to 3% in October and November), 4.2% in 2025 and 4.8% in 2026. This implies inflation averages 4.5% in 2025 and 2026, which, based on the South African Reserve Bank (SARB)'s estimate of the neutral real policy rate of 2.5%, places the neutral repo rate at 7%. Our expectations align with this, as we look for the SARB to continue easing rates in 25bps increments until 7% is achieved in May 2025. The risks to this are for a slower cutting cycle or a cycle that is not as deep. These risks emanate from higher administered prices (water, electricity), higher fuel prices due to continued geopolitical tensions, and an early announcement of a reduction in the inflation target to c. 3%. Current market pricing fully discounts a 7% repo rate.

The major longer-term risk for the SA economy has and will continue to be the fiscus. SA's problems are threefold:

- 1) slow growth which has led to subdued tax revenue;
- 2) expenditure pressures in the form of SOE bailouts and a bloated wage bill; and
- 3) a cost of funding that has far exceeded our growth rate.

A core issue for the fiscus is that the nominal growth rate (real growth + inflation) for SA remains far too low. The renewed optimism in the reform path following the announcement of the GNU, could see real growth accelerate towards 2% by 2026 (higher than the 1%-1.5% previously forecast), and even higher post this if the momentum is maintained. However, with inflation forecast to be lower (4.5%) than previously expected (5%-5.5%), this offsets a large part of the increase in real growth, implying nominal growth will be basically unchanged. Furthermore, expenditure pressure has not eased. Currently, the public sector worker union is demanding a 12% wage increase versus the 4.5% National Treasury has penciled in for 2025/2026 and deteriorating infrastructure (rail and water) at both the national and municipal level suggests the need for more (not less) money to be spent. Finally, despite the reduction in risk premium, SA is still funding itself in the bond market at levels in excess of 10%, which is much better than the 11% seen pre-election but unfortunately still well above the best expectations of nominal growth going forward. As such, we expect deficits to remain wide and SA to continue to accumulate debt, putting debt to GDP above 80% in 2029/2030, leaving the outlook for government finances less constructive than sentiment would suggest.

The path of US monetary policy as well as the level of the US 10-year bond has a significant impact on risky assets and therefore emerging market bond yields. Currently, the market pricing of monetary policy in the US is more dovish than the actual Fed projections, which suggests room for disappointment. The monetary policy tailwinds that have helped US bond yields lower could have run their course or even reverse.

The implied real yield of the US 10-year bond (US 10-year) provides one with an indication of what its long-term term premium should be relative to inflation. This implied real yield was as high as 2% pre-Global Financial Crisis, then moderated to 1.5% in its aftermath, and was closer to 0.5% leading up to Covid. A key driver of this moderation was the use of quantitative easing measures, which artificially suppressed real bond yields. The Fed has moved from quantitative easing to quantitative tightening in the last few years, removing a key distorting force of the last decade. This is not to say that the implied real yield is going to shoot back up to 2%, but it is very likely that it settles somewhere between 1.5%-2%. The market's predicting power of long-term inflation has been decent over time, as represented by the US 10-year breakeven inflation. The structural changes in the US economy post-Covid, both on the inflation and debt side, suggest longer-term inflation should be expected to be higher than previous experience, with market predictions closer to 2.25% over the long term. This implies a fair value for the US 10-year of around 3.75%-4.25%, versus a level of 3.78% at the end of the quarter, which implies limited room for yield compression.

SA bond yields can be decomposed into a global risk-free rate (US 10-year yield), the inflation differential and the credit spread. We have already established that the fair US 10-year yield (widely seen as the global risk-free rate) is 3.75%-4.25% (we will use a 4% average) and that projected long-term US inflation is 2.25%. Furthermore, SA inflation is expected to average 4.5% over the next two years, so the inflation differential is 2.25% (4.5% SA inflation minus 2.25% US inflation). The SA credit spread requires further investigation.

SA was downgraded to a BB rating in February 2020 and since then has traded at a spread to the Emerging Markets Bond Index (EMBI) BB sovereign spread. Recent compression in the risk premium has taken the spread

back to its average. There is an argument to be made that SA should trade tighter than average (40bps) after recent events, but as we have showed earlier, besides inflation, the fiscal risk still remains high, indicating the need for some risk premium. The recent turn in global risk sentiment has already resulted in a compression of the BB sovereign spread to the tightest levels seen since the peak of global monetary accommodation in the last decade. It is easy to argue that a decompression from current levels (225bps) to the long-term average (330bps) is more likely. This would put the expected SA credit spread at 370bps, maybe slightly tighter towards 350bps if a more optimistic view were to be taken.

The implication is therefore a fair value of SA 10-year bonds of 9.75%-9.95% (4% + 4.5% - 2.25% + (3.5% or 3.75%)), versus a current level of 9.95%. It is important to note, however, that the expectations used in the above calculation can be thought of to be on the constructive side. A further factor that suggests the SA 10-year bond valuation is close to fully valued, is its relative yield spread to the US 10-year, which is now below its longer-term average and below levels achieved before Covid, when the SA fiscal picture was significantly better.

ILBs have had a terrible run relative to nominal bonds given the constant downward revisions to inflation. In addition, with forward inflation expected to touch a low point of 3% soon and average below the midpoint of the inflation band (4.5%) for the majority of the next two years, they remain lacklustre. However, there are two things that continue to warrant including ILBs as part of a portfolio. Firstly, the real policy rate is coming down. At current levels, the coincident real repo rate is close to 4%, while historically this has been closer to 1.5%. The SARB is targeting c. 2.5%, which does suggest there would be significant roll down gains as this is achieved, especially for maturities of around five years. In addition, ILBs provide inherent protection against higher inflation relative to forecast.

Let's consider the total return of ILBs over the next year compared to the nominal bond equivalent, assuming inflation averages 5% and then assuming a 25bps reduction in yields across the curve but assuming average inflation of 4% (current forecast). Everything in green in the table below is where the ILBs' total return exceeds the nominal bond. First, if inflation materialises higher than our 4% estimate, the shorter-dated ILBs up to 2031 maturity offer the best protection. Secondly, if the inflation outcome is as expected but we enjoy some benefit from lower real yields as the policy rate is reduced, then given the higher modified duration of the ILBs, they significantly outperform nominal bonds. However, to this end, we have to consider where the current breakevens (market implied levels for average inflation) are and where they move to if real yields compress 25bps. Here again, it is only bonds out to a 2031 maturity, where breakevens still remain below 5% in the event of a 25bps real yield compression, that flag as attractive relative to the nominal bonds. Therefore, we believe ILBs out to a 2031 maturity still offer value not only due to valuation but also from a risk diversification standpoint.

**TOTAL RETURN: INFLATION LINKED BONDS VS NOMINAL BONDS**

Maturity	Real Yield	Current Implied Breakeven	1y Total Return of Equivalent Nominal Bond	1y Total Return of ILB at 5% Inflation	1y Total Return of ILB with a 25bps lower yield
31 March 2028	4.32%	4.06%	8.70%	9.57%	9.19%
31 March 2029	4.34%	4.34%	9.02%	9.60%	9.48%
31 January 2031	4.60%	4.68%	9.67%	9.85%	10.07%
28 February 2033	4.83%	4.92%	10.18%	10.11%	10.91%
07 December 2033	4.82%	5.09%	10.34%	10.07%	10.91%
31 January 2038	4.84%	5.74%	11.01%	10.11%	11.87%
31 January 2043	4.82%	5.90%	11.17%	10.07%	12.09%
31 March 2046	4.81%	5.95%	11.21%	10.09%	13.05%
31 December 2050	4.81%	5.92%	11.21%	10.07%	13.55%
31 January 2058	4.82%	5.95%	11.29%	10.07%	13.35%

Source: Coronation, Bloomberg

The global monetary policy easing cycle has boosted the wind in the sails of risky assets' performance. Global and emerging market bond yields are all significantly lower than at the start of the year. However, current market pricing of interest rate expectations seems ambitious, which suggests global bond yields are well priced at current valuations. SA bonds have enjoyed renewed investor optimism following the formation of the Government of National Unity and on the heels of the global bond rally. SA inflation expectations have reduced significantly but are now fairly priced in through repo rate expectations. The country's fiscal accounts remain at risk over the longer term and current bond valuations fully discount a more optimistic outcome. ILBs still offer value relative to nominal bonds, if inflation materialises higher than forecast or if real yields follow nominal bond yields lower. Bond portfolios should be positioned neutral duration at current levels with a healthy dose of ILBs for good measure.

**Portfolio managers**  
Nishan Maharaj, Steve Janson and Seamus Vasey  
30 September 2024

You can soon read our full Bond Outlook article for the quarter to end September in the Insights section of our website.

**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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