CORONATION BOND FUND

Fund Information as at 31 January 2025

CORONATION
TRUST IS EARNED™

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

5/10
Moderate

Maximum growth/ minimum income exposures

- Growth Assets: 0%
- Income Assets: 100%

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.

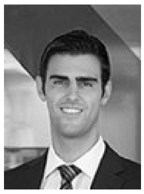
Fund expenses that are incurred in the fund include trading, custody and audit charges. All performance information is disclosed after deducting all fees and other portfolio costs.

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

CORONATION BOND FUND

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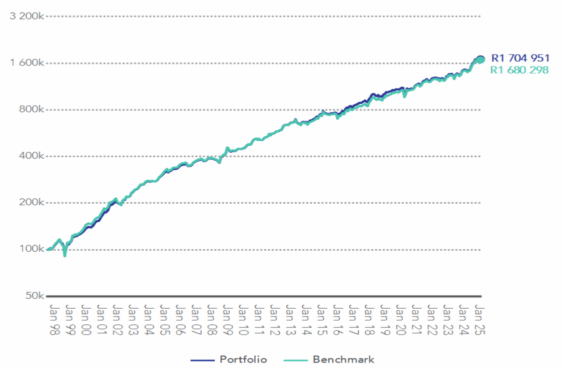
CLASS R as at 31 January 2025

ASISA Fund Category	South African - Interest Bearing - Variable Term
Launch date	01 August 1997
Fund size	R 3.92 billion
NAV	1457.77 cents
Benchmark	BEASSA ALBI Index
Portfolio manager/s	Nishan Maharaj, Seamus Vasey & Steve Janson

	1 Year	3 Year
Total Expense Ratio	0.86%	0.86%
Fund management fee	0.73%	0.73%
Fund expenses	0.01%	0.01%
VAT	0.11%	0.11%
Transaction costs (inc. VAT)	0.00%	0.00%
Total Investment Charge	0.86%	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)	1604.9%	1580.3%	24.7%
Since Launch (annualised)	10.9%	10.8%	0.1%
Latest 20 years (annualised)	8.8%	8.5%	0.2%
Latest 15 years (annualised)	9.2%	9.1%	0.1%
Latest 10 years (annualised)	8.0%	8.0%	0.0%
Latest 5 years (annualised)	8.9%	9.4%	(0.5)%
Latest 3 years (annualised)	9.9%	10.1%	(0.2)%
Latest 1 year	17.0%	16.9%	0.1%
Year to date	0.3%	0.4%	(0.1)%

	Fund
Modified Duration	6.0
Yield (Net of Fees)	10.0%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.8%	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

PORTFOLIO DETAIL

ASSET ALLOCATION BY INSTRUMENT TYPE

	Domestic Assets	International Assets
Fixed Rate bonds	82.2%	8.9%
Cash and Money Market NCDs	4.8%	(3.1)%
Inflation-Linked bonds	6.3%	0.0%
Floating Rate bonds	1.0%	0.0%
Total	**94.2%**	**5.8%**

ASSET ALLOCATION BY ISSUER TYPE

	% of Fund
Government	70.0%
Banks: Senior Debt	20.2%
State Owned Enterprises	4.1%
Other Corporates	2.3%
Banks and Insurers: NCDs & Deposits	1.7%
Banks: Subordinated debt (>12m)	1.7%
REITs	0.0%
Banks: Subordinated debt (<12m)	0.0%
Total	**100.0%**

TOP 5 ISSUER EXPOSURE

	% of Fund
Republic Of South Africa	82.4%
Standard Bank Of SA Ltd	4.5%
Firstrand Bank Ltd	3.3%
Transnet Soc Ltd	2.1%
Nedbank Ltd	2.1%

MATURITY PROFILE DETAIL

Sector	31 Jan 2025
0 to 3 Months	1.7%
6 to 9 Months	0.4%
1 to 3 Years	5.7%
3 to 7 Years	18.4%
7 to 12 Years	40.6%
Over 12 Years	33.1%

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

MONTHLY PERFORMANCE RETURNS (AFTER FEES)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2025	0.30%												**0.30%**
Fund 2024	0.75%	(0.57)%	(2.08)%	1.50%	0.79%	5.44%	4.02%	2.41%	3.86%	(2.20)%	3.03%	(0.41)%	**17.48%**
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%**

Issue date: 2025/02/11

Please refer to page 4 of the Comprehensive Fact Sheet for important additional infomation, including change in cost disclosures.

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

2024 was another impressive year for risk assets, as continued strength in the US economy and market saw developed market equities deliver jaw-dropping, high double-digit returns. Conversely, developed market bonds grappled with sticky inflation and unease about excessive government borrowing. The return of President Donald Trump this month introduces uncertainty around the direction of US policy, casting a shadow over expected returns for the coming year.

2025 is the year of the Snake, which is believed to bring transformation, renewal, and growth. In a world that has been fractured by increasing geopolitical tensions and growing inequality, global debt has steadily increased to c. US$100 trillion and is expected to hit 100% of global GDP by the end of the decade. This is the shackle that needs to be shed for the world to enjoy transformative prosperity.

The US dollar powered ahead in the last few months of 2024, placing weakening pressure on most emerging market currencies. The rand ended the year at R18.84/US$1, which is -2.55% weaker than at the start, despite being up c. 6% by the third quarter of the year. Despite this, the rand was still among the top performers in the emerging market universe. The FTSE/JSE All Bond Index (ALBI) was up 17.18% over the year, following a 100 basis point (bps) rally in bond yields over the same period, with the longer end of the curve (>12y maturity) producing a return in excess of 20%. Inflation-linked bonds (ILBs) significantly underperformed cash (8.21%) and bonds over the period, delivering a paltry return of 7.77%. This was primarily due to a slower path to a normal real policy rate, despite inflation ticking down much faster than expectations. Global bonds had a poor year as global yields climbed, with US yields up 50bps and the FTSE World Government Bond Index returning -2.87% in US dollars and -0.01% in rands. South African (SA) bond outperformance was primarily due to the coalition of the Government of National Unity (GNU) in the middle of the year. This cooperative alliance helped reduce the local risk premium but will weigh on prospects for 2025.

In SA, we have become accustomed to disappointment, either due to underestimating incurred damages or an inability to push through needed reform timeously. However, our shining light in the economic wilderness has been the South African Reserve Bank (SARB). The SARB maintained its independence and institutional credibility when everything was crumbling around it in the Zuma era. It is an institution that is filled with principled individuals of the highest caliber, who have performed their duties admirably. Unfortunately, in the last year, their pursuit of a lower inflation target at a point in the economic cycle when lower borrowing costs could aid a tepid recovery has been ill-timed.

One of the key arguments from the SARB has been that the current inflation target has remained too high relative to the rest of the world. However, there are two key rebuttals that question the durability of the SARB's case. Firstly, although many emerging markets have lowered their inflation target over time to a target that is below our 4.5% target, they have failed to sustainably maintain their inflation at that level. Secondly, the SARB has argued that our real policy rate needs to increase in line with the global real policy rate. However, as global inflation has remained high, ours has remained contained, narrowing the inflation differential significantly, thus reducing our need to track the global real policy rate higher. When comparing SA's inflation relative to the US, our inflation differential has narrowed from an average of 4% pre-pandemic to 2% post-pandemic.

SA inflation will average at around 4.5% in 2024 and 4.2% in 2025, before ticking back up to an average of 4.9% in 2026. This provides the SARB with room to ease policy rates further to 7.25% by the second half of 2025. However, given that the SARB is likely targeting inflation lower than 4.5% (probably closer to 3.5%), it is unlikely rates will remain there for very long, especially in light of the uncertainty about the path of US policy easing due to the inflationary impact of the Trump administration's policy shift. Our forecasts see a reduction in the SA repo rate to 7.25% by the end of the first half of 2025, which aligns with market pricing. However, if an official change in target is communicated during the course of the year, the policy rate could revert to current levels, as per market pricing. We do believe that if the target is changed in 2026, the measurement date will be set for 2028, which would offset the need for an imminent move higher in the repo rate.

Fiscal policy remains the Achilles Heel of the SA economy. The debt load will continue to increase towards 80% of GDP as acknowledged, but unaccounted-for items continue to weigh on government expenditure. These include further support for State-owned enterprises – Transnet more immediately and an increasing probability for Eskom if higher tariffs are not granted or municipal debt is not repaid, municipal infrastructure upgrades, a larger wage bill, and high debt service costs. The only silver bullet is higher economic growth. Unfortunately, due to the slow pace of previous reform implementation, the magnitude of real economic growth that is required in order to stabilise and then reduce the debt load is around 3% to 4%. This is still some way off from our growth expectation of 2% to 2.3% by 2026, which is heavily dependent on the sustainability of the GNU. As such, although the noise around the fiscal trajectory has quietened for now, the risks posed to the economy if implementation falters or growth fails to recover over the next two to three years are still very high.

SA government bonds (SAGB) spent half of last year languishing at the bottom of the performance table before turning course in the second half of the year following an unexpected positive turn in the SA political landscape. However, the jury is still out as to whether the ship can change course and do so swiftly. The risk premium in SA bonds has reduced significantly and, although absolute levels remain high at around 10% in the 10-year SAGB relative to global bond yields and other assets, SA bonds seem well priced for their underlying risks. Our bond fair value stack puts current trading levels marginally on the cheaper end of the fair value trading range.

US bonds have sold off by 50bps over the last year despite SA bonds rallying by 100bps, which tightened our trading spread over the global risk-free rate. In large part, the risk premium was initially too aggressive, but the current trading levels have brought SA back to levels last seen when it was an investment-grade country, which suggests the market hopes for a more optimistic outcome.

SA bonds offered quite a significant pickup relative to cash coming out of Covid, which was indicative of the large amount of protection in yields that were on offer relative to cash, with bond yields trading at some points twice cash levels. However, in the last 18 months, cash has risen and bond yields have compressed, pushing the ratio between the SA 10-year bond yield and cash back to the long-term average, further indicating a reduction in yield protection and more sanguine market expectations.

The absolute level of bond yields is still attractive given their long-term trading history, however, the risk premium and protection offered by these bond yields have reduced significantly leaving them, at best, at fair value if not slightly overestimating the SA turnaround. In addition, the world is entering a very uncertain period in which global borrowing levels are at all-time highs, with global yields at risk of pushing higher given the possible change in policy given recent geopolitical developments. As such, local bond investors, need to remain vigilant in a landscape of increasing risk.

ILBs have been the worst-performing asset class within fixed income for the last couple of years. In a portfolio of assets, one requires diversification and something that offers insurance in the event the base case doesn't materialise. As such, just because an asset has not performed well does not mean it does not deserve a place in the portfolio. ILBs are such an asset class, primarily because of their inherent risk-offsetting attributes and current valuation. ILBs offer protection if inflation materialises higher than expectations. At current levels, the real yields on offer are historically high (in excess of 4.5% across the curve, which implies a guaranteed return of CPI + 4.5%), and the total return on offer relative to nominal bonds remains attractive. This attractiveness is focused primarily on maturities of less than four to six years. The cells highlighted in green in the table below show where the total return of the ILB (under an inflation assumption) is greater than the total return on offer by the nominal bond. The front end of the curve remains a better alternative to nominal bonds, due to its lower modified duration (capital at risk).

INFLATION-LINKED BONDS VS NOMINAL BONDS

Bond	Maturity	Real yield	EXPECTED ILB TOTAL RETURN CPI at 4.5%	CPI at 5%	CPI at 5.5%	Expected nominal total return
R210	Mar-28	4.51	9.24%	9.76%	10.28%	8.72%
I2029	Mar-29	4.67	9.42%	9.94%	10.46%	8.96%
I2031	Jan-31	4.72	9.44%	9.95%	10.46%	9.53%
I2033	Feb-33	4.87	9.62%	10.14%	10.66%	10.05%
R202	Dec-33	4.875	9.63%	10.15%	10.67%	10.20%
I2038	Jan-38	4.89	9.63%	10.15%	10.66%	10.93%
I2043	Jan-43	4.85	9.57%	10.08%	10.58%	11.14%
I2046	Mar-46	4.92	9.67%	10.18%	10.70%	11.20%
I2050	Dec-50	4.9	9.66%	10.18%	10.70%	11.22%
I2058	Jan-58	4.88	9.60%	10.11%	10.61%	11.26%

Source: Coronation

Local credit spreads are at historically tight levels due to low levels of issuance and large swaths of capital looking for a home with reduced volatility. The use of structured products, such as credit-linked notes (CLNs), has become ubiquitous within the local market. This sector has grown exponentially over the last five years and has reached a market size of over R100 billion. However, 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 by not marking them to market based on the underlying asset price movements. The combination of attractive yields and no volatility is an opportunity that few 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 of which the valuations are correctly aligned to fundamentals and efficient market pricing. Except for a few opportunities, we view the local credit market as unattractive relative to other asset classes.

Despite a wobbly end to the year, risk assets enjoyed a relatively strong 2024. SA government bonds shone as they outperformed their emerging and developed market counterparts. The road ahead is less certain. Inflation has remained well behaved and is expected to remain close to the midpoint of the current target band. However, the SARB's reluctance to ease rates might prove to be a headwind to bond yields and the economy going forward. In addition, local growth has remained lacklustre, and the growth required to shed the burden of our current debt load remains much higher than expectations. The risk premium on SA bonds has been much reduced and is commensurate, if not too idealistic, with SA's economic future. In addition, global risks remain high as the incoming US president's policy direction might stoke inflation and push global bond yields even higher still. We continue to maintain a neutral position on local bond yields in light of their reduced risk premium, with very little exposure to local credit and a moderate allocation to ILBs given their attractive valuation and offsetting risk attributes.

Portfolio managers
Nishan Maharaj, Steve Janson and Seamus Vasey
31 December 2024

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

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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