

CORO.LAB

Your guide to investment ideas

CORONATION STRATEGIC INCOME

A compelling cash alternative, now at a lower price

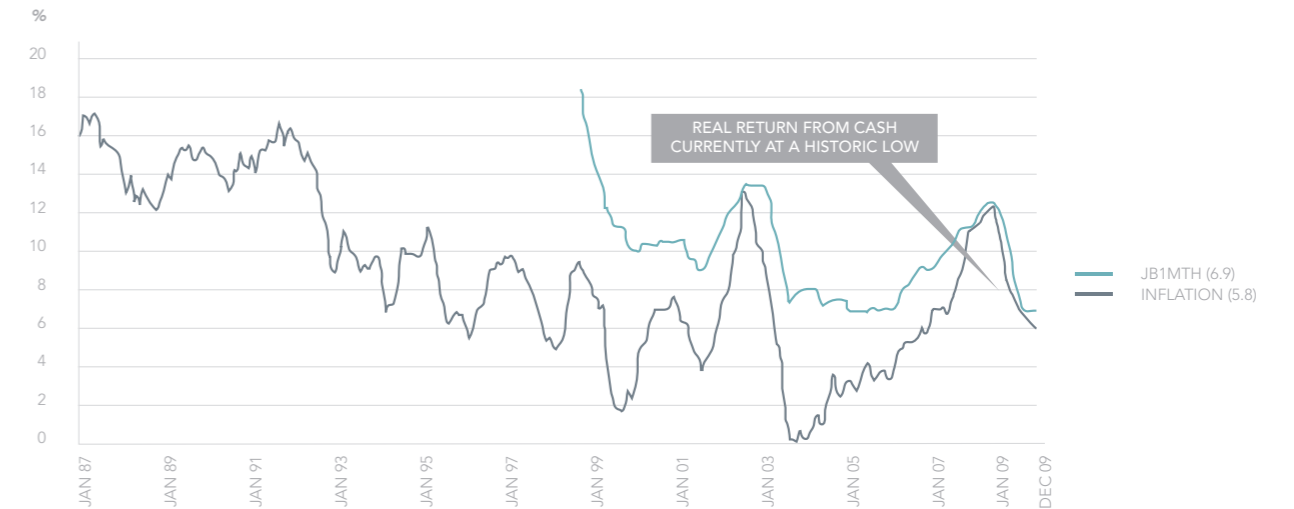
THE REAL RETURN FROM CASH HAS ALL BUT DISAPPEARED, YET MANY INVESTORS STILL REMAIN ON THE SIDELINES.

MARKET OUTLOOK

More or less 40% of all unit trust investments in South Africa are currently held in money market and near-cash funds. However, the outlook for cash returns has deteriorated: overnight deposits in the money market, which achieved 12% during 2008, now yield around 7%. This is only marginally ahead of the November inflation rate of 5.8%.

As a result, the real return from cash has all but disappeared. We expect money market rates to remain low for an extended period of time. This is premised on the likelihood that policy makers will err on the side of caution and keep interest rates lower for longer despite the tentative signs of economic recovery to date.

FIGURE 1 NO REAL RETURNS FROM CASH AT THESE LEVELS



Source: I-Net Bridge

THE CASE FOR A LOW RISK, ACTIVELY MANAGED CASH ALTERNATIVE IS COMPELLING.

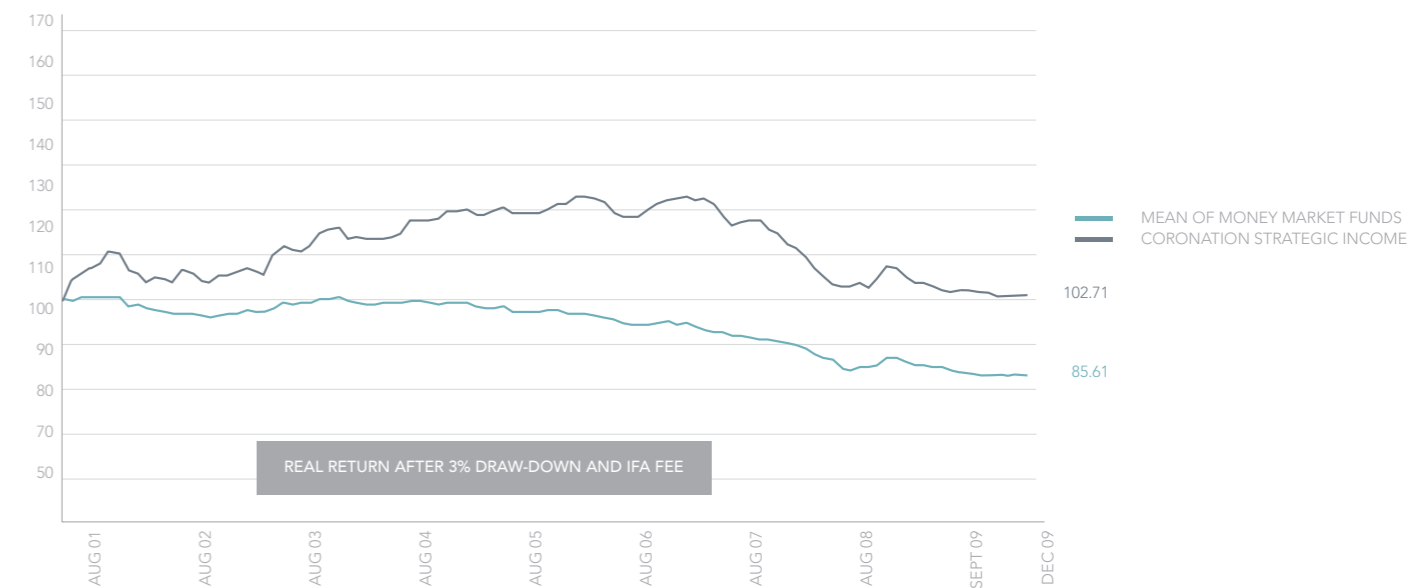
LONG-TERM IMPLICATIONS

Money market funds are designed for short investment periods, and are rarely appropriate for terms exceeding 2-3 years. These funds cannot keep pace with even moderate inflation and if an investor requires any kind of regular income (draw-down) or pay any tax, money market funds should be used with caution.

From figure 2, it is clear to see that money market funds cannot protect an investor's capital over the longer term, even at a low draw-down rate of 3%.

Given that returns on money market investments are low, and likely to stay that way for an extended period of time, we believe it is time for investors to consider an actively managed fixed interest fund that has the ability to outperform cash, but without taking on undue capital risk.

FIGURE 2 MONEY MARKET FUNDS CANNOT HANDLE DRAW-DOWNS



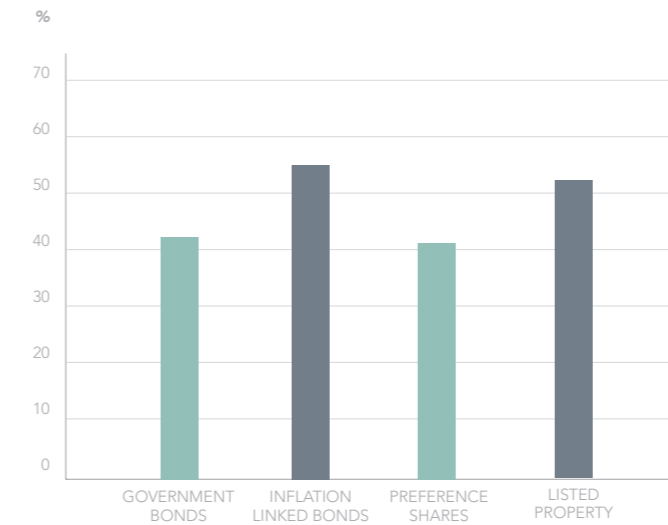
Source: Coronation Fund Managers Research, Morningstar

YOU CANNOT
BEAT INFLATION
WITH CASH ALONE

THE NEED FOR INVESTING IN HIGHER EXPECTED RETURN ASSETS

To outperform inflation investors need exposure to assets with a higher expected return. Figure 3 (alongside) illustrates how these assets (e.g. government bonds and property stocks) have from time to time generated higher returns than cash. In the Coronation Strategic Income Fund, we increase exposure to these assets when we expect the probability of outperformance to be high.

FIGURE 3 PERCENTAGE OF MONTHS ASSET CLASSES EXCEED CASH*



* Since inception of strategic income in 2001

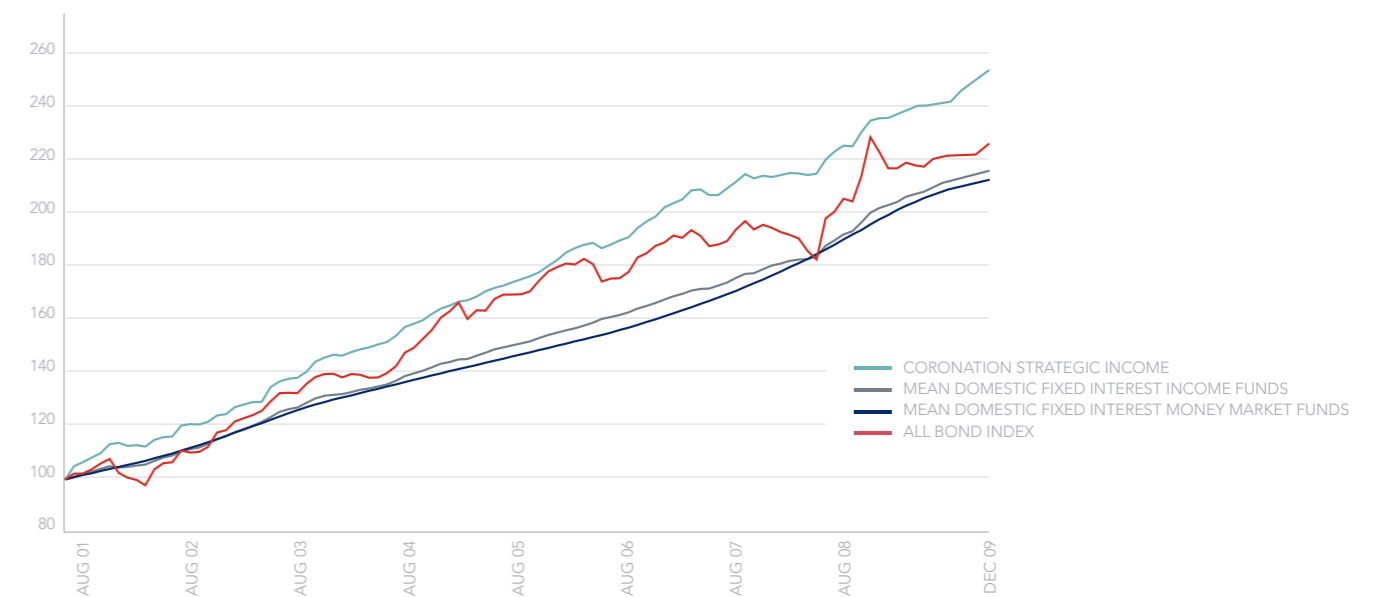
Source: Coronation Fund Managers Research, I-Net Bridge

A SOLID LONG-TERM
TRACK RECORD

HAS THE STRATEGY DELIVERED?

As illustrated alongside, the fund's long-term track record demonstrates that we have added value through our instrument selection as well as asset allocation abilities within the fixed income universe.

FIGURE 4 CUMULATIVE RETURNS SINCE INCEPTION TO 31 DECEMBER 2009



Source: Morningstar

THE CORONATION STRATEGIC INCOME FUND IS A PROVEN CASH-OUTPERFORMER OVER THE LONGER TERM. SINCE INCEPTION, THE FUND HAS BEATEN CASH* BY 2.2% PER ANNUM.

*As measured by the Alexander Forbes 3-month (STeFI) Index.

CORONATION STRATEGIC INCOME

The fund has a flexible mandate with no prescribed maturity limits for the securities in which it invests. It also has a flexible duration policy and seeks to protect capital in times of bond market weakness. Its asset allocation is defensive, taking exposure of a maximum of 25% to other growth assets (listed property, preference shares and since October 2009 foreign assets), excluding ordinary shares.

Strategic Income aims to provide a higher level of income than a money market or pure income fund as well as moderate capital growth. The fund has historically preserved the long-term purchasing power of investors' capital at a draw-down rate of 3% (refer to figure 2). Investors requiring a level of income of 5% and more should however consider funds with larger risk budgets, which include exposure to equities.

FIGURE 5.2 PORTFOLIO COMPOSITION AS AT 31 DECEMBER 2009

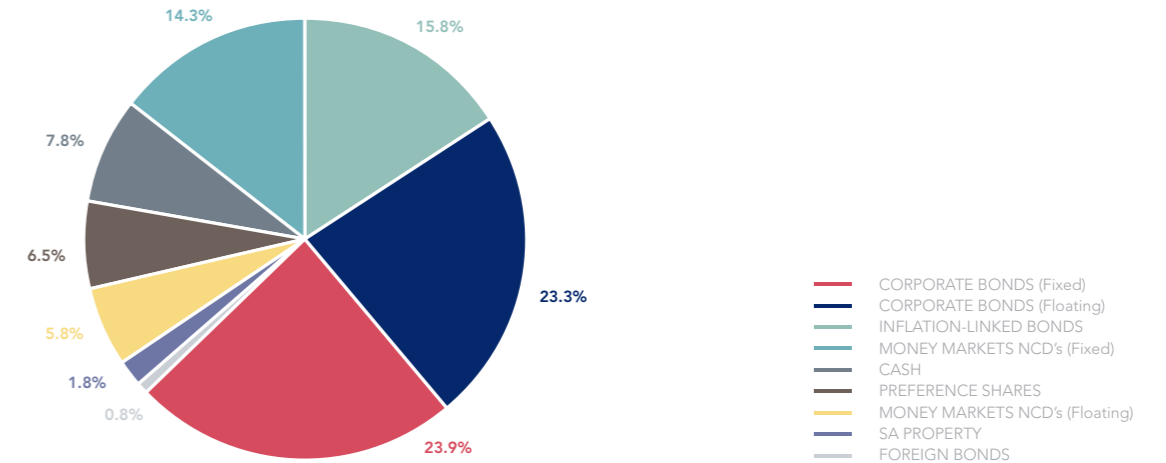
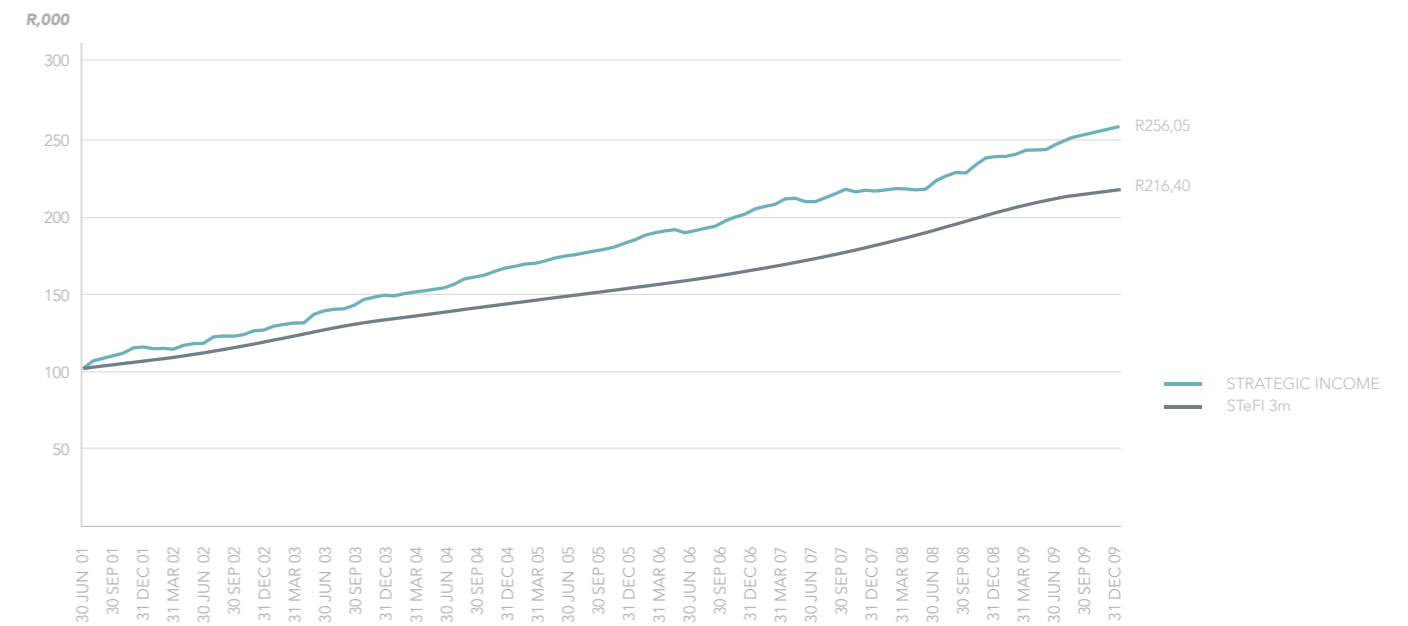


FIGURE 5.3 GROWTH OF R100 000 INVESTMENT AT INCEPTION OF STRATEGIC INCOME IN 2001



Source: Morningstar

FIGURE 5.1 STRATEGIC INCOME PERFORMANCE VERSUS CASH

	STRATEGIC INCOME	CASH (STeFI 3m)
SINCE INCEPTION RETURN (CUMULATIVE)	156.0%	116.4%
SINCE INCEPTION RETURN (ANNUALISED)	11.7%	9.5%
2009	8.2%	8.6%
2008	9.7%	11.7%
2007	7.7%	9.4%
2006	10.4%	7.4%
2005	9.9%	7.1%
2004	11.9%	7.8%
2003	18.1%	12.3%
2002	9.6%	11.8%
2001 (6 MONTHS)	14.0%	4.8%

RECENT ENHANCEMENTS

To offer investors an even more compelling cash alternative, we have enhanced the Strategic Income Fund as follows:

EXPANDING THE INVESTMENT UNIVERSE

We have included foreign yielding assets such as bonds, inflation-linked bonds and treasuries to the fund's growth budget. As a result, we have increased this budget from 20% to 25%. The inclusion of foreign exposure is not viewed as strategic, but rather as a tactical tool that will be used to increase portfolio efficiency over time. It is highly unlikely that the fund will have more than 10% exposure to foreign assets at any given point in time. The 10% limit on listed property shares remains.

MANAGEMENT FEE CHANGE

In recognition of the recent decline in interest rates and our view that rates may remain at lower than historically experienced levels for an extended period of time, we have reduced the fund's management fee. The annual management fee applicable to the fund's A-class was reduced from 1% p.a. (excl. VAT) to 0.85% p.a. (excl. VAT) with effect from 1 October 2009.

INVESTOR PROFILE:

- Risk averse investors, with a time horizon of between 6 months and 3 years, who require a regular stream of income from their capital base.
- Investors who seek managed exposure to income generating investments.
- Investors who believe in the benefits of active management within the fixed interest universe. (As illustrated in figure 4, Strategic Income consistently outperforms the underlying asset classes in which it invests).

The fund is less appropriate for:

- Investors looking for a short-term (<6 months) parking vehicle with higher yields than typically available in overnight bank deposits.
- Investors who seek a growing income to protect purchasing power against inflation with an investment horizon of more than 3 years.
- Investors averse to earning a major portion of their portfolio return in taxable interest-related income.

OUR APPROACH TO FIXED INTEREST

At Coronation we take an active approach to fixed interest portfolio management, with investment decisions driven by proprietary research across the full spectrum of potential return enhancers.

These include duration and yield curve positions, off-benchmark positions through inflation-linked assets as well as yield enhancement through credit enhanced assets. As is the case with equities, we believe value can be added through bottom-up security selection when mispricings occur. Critical to the success of our fixed interest funds is how we view changing market conditions and respond to

this through active management of portfolio duration (a measure of the sensitivity of the market risk of the fund).

Our fixed interest investment cycle (as illustrated below) guides our duration management, asset allocation and yield curve positioning. In its simplest form, the cycle is divided into two halves which represent a falling inflation environment (good for bonds) and a rising inflation environment (bad for bonds). The other factors are nuances on this. While the chart looks neat and even, in practice the time taken to move through each quadrant can be very different.

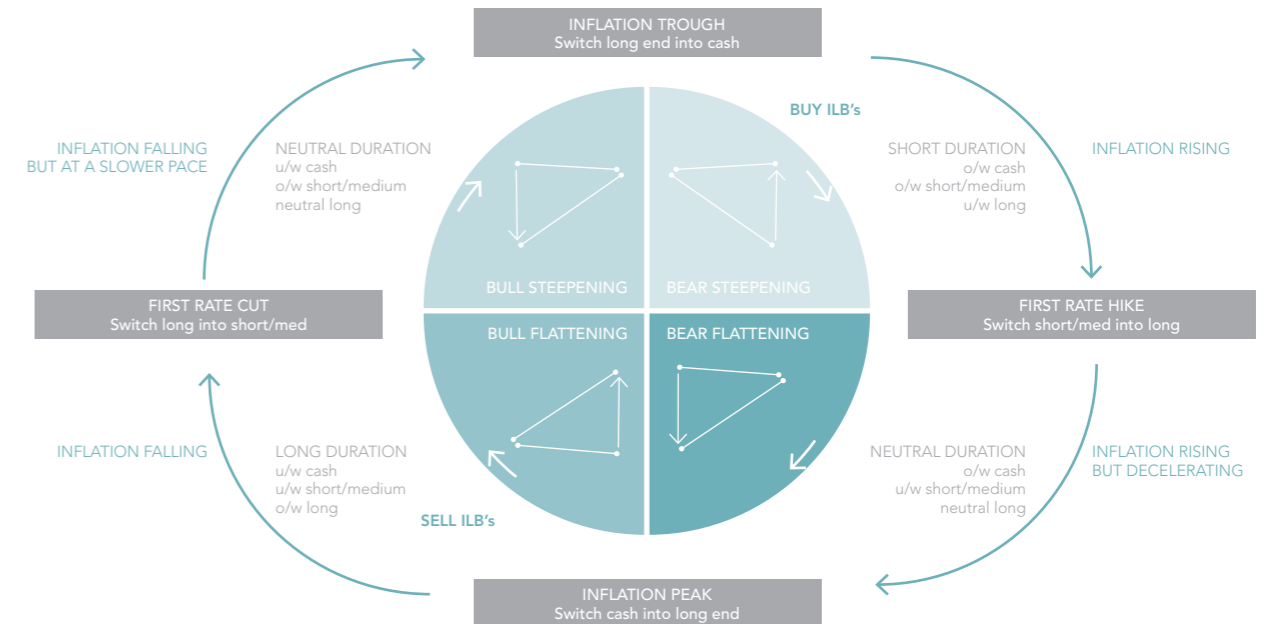


FIGURE 6 THE FIXED INTEREST INVESTMENT CYCLE

AN EXPERIENCED AND BALANCED SKILLS SET

Our depth of skill across all asset classes is illustrated in the many publicly available ranking tables and performance surveys. In the fixed interest arena, our ability has been strengthened over a number of years attracting much interest from both individual and institutional investors. The team is led by Mark le Roux with each member of the team providing key specialist input with the aim of extracting maximum value from each of the potential return enhancers.

TEAM MEMBER	QUALIFICATIONS	WORK EXPERIENCE AND KEY ATTRIBUTES
MARK LE ROUX	BCom 18 years' experience	<ul style="list-style-type: none"> Extensive Fixed Interest portfolio management experience Holder of two individual fund Raging Bull awards for the funds he has managed Appointed Head of Fixed Income at Old Mutual Asset Management in 1997 Joined Decillion in 2002 to start what is believed to be the first fixed income hedge fund (invested in by third parties) in SA, the Granite fixed income fund Joined Coronation in July 2005 as Head of Fixed Income Currently manages approximately R25 billion of fixed income portfolios
CHANTAL VALENTINE	BCom(Hons) 18 years' experience	<ul style="list-style-type: none"> Joined Coronation in 2003 Responsible for macroeconomic research and applying it to investment decisions Previously worked as an economist with a particular focus on the bond market, including banking and stockbroking environments Rated in the Financial Mail awards in both the Economics and Fixed Interest Research categories in every year she was eligible, including No.1 awards in both
TANIA MIGLIETTA	BBusSc (Finance), CFA 15 years' experience	<ul style="list-style-type: none"> Joined Coronation in 2002 Responsible for all money market, income and global cash portfolios as well as co-management of the Coronation Strategic Income and Preference Share funds Won a Raging Bull award for the Coronation Income Fund Member of the Coronation Credit Committee
STEPHEN PEIRCE	BA (Economics), MA (Finance), UKSIP 15 years' experience	<ul style="list-style-type: none"> Joined Coronation in 2010 Extensive retail and institutional fixed interest portfolio management experience Previously worked at Societe Generale Asset Management in 2000 before moving to Royal London Asset Management in 2005
CHRISTINE FOURIE	FFA, BEconSc (Actuarial) 10 years' experience	<ul style="list-style-type: none"> Joined Coronation in 2007 Responsible for amongst others fixed income structuring, inflation-linked bonds and liability matching Previously worked on the equities and derivatives desk at Rand Merchant Bank for two years and product development at Momentum prior to that
ADRIAN VAN PALLANDER	CFA, FRM 8 years' experience	<ul style="list-style-type: none"> Joined Coronation in 2002 as a quantitative analyst Responsible for risk management and the monitoring of portfolio construction across all asset classes
LUKE HENKEMAN	BBusSc(Economics) 4 years' experience	<ul style="list-style-type: none"> Joined Coronation in 2008 as Fixed Interest analyst Varied analytical and trading responsibilities within the fixed interest team Previously worked at JP Morgan Investment Bank as corporate finance analyst in Debt Capital Markets

ABOUT CORONATION

- Founded in 1993
- Superior investment performance track record
- Strength of philosophy and process
- First to introduce absolute products to the South African market in 1999
- 30% staff owned
- Offices in Cape Town, Johannesburg, Durban, Pretoria, Gaborone, Windhoek, Mbabane, London and Dublin
- First asset manager in South Africa to gain GIPS® compliance
- A client-centred business

CORONATION STRATEGIC INCOME

FEES (excl. VAT)	
INITIAL FEE	CORONATION: 0.00%
ANNUAL MANAGEMENT FEE*	0.85%
*A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.	
The annual management fee of this fund was reduced to 0.85% (excl. VAT) with effect from 1 October 2009. Benchmark change: from 1 October 2009, the fund's benchmark will be 110% of the STeFI 3-month Index.	
TOTAL EXPENSE RATIO (TER) ¹	1.13% PER ANNUM

Unit trusts should be considered a medium- to long-term investment. The value of units may go down as well as up. Past performance is not necessarily an indication of future performance. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. Instructions must reach the Management Company before 2pm (12pm for the Money Market Fund) to ensure same day value. Fund valuations take place at approximately 15h00 each business day and forward pricing is used. Coronation is a Full member of the Association for Savings & Investment SA (ASISA). Performance is quoted from Morningstar as at 30 December 2009 for a lump sum investment using Class A NAV prices with income distributions reinvested. Performance figures are quoted after the deduction of all costs incurred within the fund. ¹The TER is calculated as a percentage of the average NAV of the portfolio incurred as charges, levies and fees in the management of the portfolio for a rolling 12-month period to end September 2009. A higher TER ratio does not necessarily imply a poor return nor does a low TER imply a good return. The current disclosed TER cannot be regarded as an indication of future TER's.

ADVICE COSTS (excl. VAT)
<ul style="list-style-type: none"> • Initial and ongoing fees may be facilitated on agreement between the Client and Financial Advisor. • An initial advice fee may be negotiated to a maximum of 3% and is applied to each contribution and deducted before the investment is made. • Ongoing advice fees may be negotiated to a maximum of 1% per annum (if initial advice fee greater than 1.5% is selected, then the maximum annual advice fee is 0.5%), charged by way of unit reduction and paid to the financial Advisor monthly in arrears. This annual advice fee is not part of the normal annual management fee as disclosed above. • Where commission and incentives are paid, these are included in the overall costs.

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JANUARY 2010

CORONATION 
FUND MANAGERS

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