

The bond market staged a rally in September, helping to lift the All-Bond Index (ALBI) to a 3.4% return for the third quarter. This was one of the few times over the past year where bonds have outperformed both cash and inflation-linked bonds. The 1 -3 year Bond Index returned 2.7% for the quarter, however significant weakness in the bond market in the May-August period is still depressing longer-term returns.

Bond and money market returns

Name	September 2007	3 months	6 months	12 months	Year-to-date
All Bond	2.34%	3.4%	1.6%	9.0%	3.3%
GOVI	2.29%	3.3%	1.7%	9.2%	3.3%
OTHI	2.65%	3.7%	1.2%	7.9%	3.0%
Bonds 1-3 Years	1.55%	2.7%	3.4%	8.1%	5.7%
Bonds 3-7 Years	2.35%	3.2%	2.8%	8.5%	4.7%
Bonds 7-12 Years	2.57%	3.5%	1.6%	10.5%	3.4%
Bonds 12+ Years	3.23%	4.4%	0.2%	11.2%	1.0%
Cash	0.83%	2.5%	4.8%	9.6%	7.3%
Barclays BESA Govt Inflation-Linked Bonds	1.72%	1.4%	2.6%	6.2%	3.6%

Source: Deutsche Securities

The SA Reserve Bank raised the repo rate another 50 basis points in August, bringing it to 10%. While concerns around inflation lingered with a string of worse-than-expected data releases, sentiment started turning after international factors took the lead role. As concerns about the sub-prime fall-out's impact on financial markets spread – the market started to price in a US rate cut. The Federal Reserve duly delivered, even surprising the markets with a 50 basis points cut at its September 18 Federal Open Market Committee (FOMC) meeting (most analysts had expected 25 basis points).

The Fed's move reignited interest in risky assets, with SA bonds joining a general emerging markets rally. The dollar has also come under pressure recently, and the rand has benefited handsomely from this, once again breaking through the R/\$7 level. Given the importance of the rand to SA's inflation outlook, and against a background of near-record highs in global food and energy prices, the currency move is a welcome respite.

SA's current inflation situation remains an uncomfortable one. CPIX has been above the upper limit of its 3% - 6% target range since April, and will probably be there until March 2008: representing a full year above the target range. While much of this impetus has been driven by higher food prices and last year's rand fall, the SARB remains concerned about credibility. On a longer-term view, however, the big picture is rosier. Even with the lags involved, it is already clear that consumer spending and consumer credit cycles have turned as the effects of past rate rises start to bite. At the time of writing the October MPC has yet to take place; while it will be a close call, we think there are solid arguments for leaving rates unchanged. If they do rise again, it should clearly be the peak in the cycle. On the current outlook, we see scope for the repo rate to start falling in the second half of 2008.

We increased the government bond holding in the fund on bond weakness as signs of the top of the interest rate cycle emerged. We also participated in the recent Nedbank corporate bond at a very attractive credit spread of 1.85% above RSA government bonds.

Money market interest rates have stayed well above 10%, but the close to 11% seen in the 3-year term has now been priced out on the recent bond rally. The fund has a 45% holding in low risk high yielding money market NCDs.

International money markets reached crisis levels in both the US and Europe this quarter, with sub-prime loans hitting the short term securitisation markets (asset backed commercial paper – ABCP) severely, and drying up issuance thereof. The lack of liquidity has been a big issue in international money markets to which in some cases, banks have had to provide emergency liquidity. In SA we were somewhat shielded from the international money market volatility as SA banks are not exposed to the very risky securitisations which caused the credit crunch and default worries.

The fund has not participated in SA-listed securitisation in recent years, since pricing never fully compensated us for the lack of liquidity (ability to sell) or the credit risk that these investments represent. The pricing has since improved significantly in the form of widening credit spreads.

Liberty International plc displayed extreme volatility this quarter, starting the period at a price of R160 trading to a low of R148 then a high of R173. It closed the quarter at R157, close to its starting price, but after considerable intra-month swings. We reduced our holding in Liberty International plc to protect investors from unnecessary volatility. We continue to hold 1.5% in this share as we believe that it is still attractive with good diversification and rand hedge properties.

Domestic property holdings in the fund remained steady, although note that price volatility has increased. We have sought to top up on favoured property counters on price weakness. Volumes have been very thin however as liquidity tends to dry up during very volatile times.

Preference shares currently provide a non-taxable yield of between 10% and 11%. Price weakness has dogged this sector since the second quarter, but prices should start to turn once the top of the interest rate cycle is in view. Preference shares offer very good value to investors.

The Coronation Strategic Income Fund which is currently yielding around 9.6%, returned 2.5% for the quarter.

Mark le Roux and Tania Miglietta
Portfolio Managers

Fund category	Domestic Fixed Interest Varied Specialist
Fund description	A widely diversified, actively managed fund that aims to provide a higher level of income than a pure income fund.
Launch date	2 July 2001

Portfolio manager/s	Mark le Roux and Tania Miglietta
Fund size	R5.3 billion
NAV	1320.03 cents
Benchmark/performance fee hurdle	BEASSA ALBI (1 - 3 year) TR Index

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2007
Domestic Assets	100.0%
Cash/Money Market	48.9%
Bonds	33.7%
Listed Property	8.8%
Preference Shares	8.0%
Other investments	0.6%
International Assets	0.0%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2007	01/10/2007	25.33	2.82	22.51
30/06/2007	01/07/2007	23.45	1.10	22.35
31/03/2007	01/04/2007	21.66	0.30	21.36
31/12/2006	01/01/2007	21.56	1.00	20.56

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2007	1.69%	0.79%	0.67%	1.70%	0.18%	-1.06%	0.02%	1.21%	1.24%			
Fund 2006	1.17%	1.61%	0.87%	0.66%	0.42%	-1.05%	0.73%	0.78%	0.70%	1.78%	1.33%	0.96%
Fund 2005	0.70%	0.92%	0.26%	0.88%	1.16%	0.76%	0.48%	0.73%	0.68%	0.65%	0.87%	1.35%

FEES (excl. VAT)

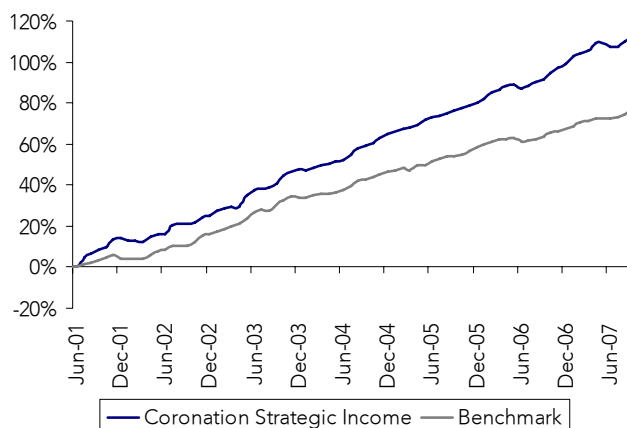
Initial Fee	Coronation: 0.00%
Annual Management Fee*	1.00%
Total Expense Ratio (TER) ²	1.12% per annum

Advice Costs (excluding VAT)

- Initial and ongoing advice 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 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.

PERFORMANCE AND RISK STATISTICS¹

CUMULATIVE PERFORMANCE SINCE INCEPTION



PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	6.60%	5.65%	0.95%
Latest 12 months (annualised)	10.99%	8.13%	2.87%
Latest 36 months (annualised)	10.23%	7.22%	3.01%
Latest 60 months (annualised)	12.02%	9.92%	2.10%
Since inception (annualised)	12.89%	9.58%	3.30%
2006	10.40%	5.65%	4.75%
2005	9.85%	7.70%	2.16%
2004	11.88%	10.17%	1.71%
2003	18.09%	15.02%	3.07%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	3.51%	2.70%
Sharpe ratio	0.92	-0.02
Maximum gain	29.19%	15.89%
Maximum drawdown	-1.29%	-1.85%
Positive months	92.00%	86.67%