

The past quarter can only be termed as the bad news quarter, which came through in big waves, bringing with it higher price volatility and ever decreasing confidence. Compared to a year ago, there is not much to be happy about. But knowing that markets work in cycles and always bounce back, the current market presents a great buying opportunity for long-term investors.

Bonds sold-off in dramatic fashion over the quarter as inflation worries escalated. The All Bond Index lost 4.9%, and 6.7% for the year-to-date. The R157 (2015 maturity) opened the quarter in April at 9.2% and sold-off with the yield to maturity moving all the way up to 10.85% - levels not seen since 2002. The benchmark for the Coronation Strategic Income Fund returned -1.3% for the quarter versus the fund which outperformed with a return of -0.15%. The safest place to be this quarter was in cash.

We saw the repo rate being raised by a further 1% over the period (0.5% in April and June), taking it to 12%. Short term interest rates have more than doubled since the beginning of this interest rate cycle, with deposit rates now at 14% compared to 7% in 2006.

We undertook a major de-risking exercise on the fund at the beginning of the quarter when it became apparent that interest rates were likely to continue to rise. We switched all fixed rate money market exposure into floating rate investments which act as an interest rate hedge. This had the effect of halving the modified duration of the portfolio from 2 to 1. It also meant that the fund had half the interest rate risk of the benchmark (duration of 2).

With the bond market sell-off, bonds have become increasingly attractive and our fair value models are signalling that value is starting to return to this area of the market. However, given the negative backdrop and the risk of the oil price continuing to push inflation higher, we are erring on the side of caution and await confirmation that we are indeed at the top of the interest rate cycle before adding bonds.

Eskom's price increase for this year of 27.5% was confirmed in June. When factored into inflation, the CPIX forecast peaks at over 12% - clearly a worrying figure. Once again, inflation is a cycle and the ten interest rate hikes to-date are designed to bring down inflation. Economists furthermore expect the decline in inflation to be aided by the 5-yearly re-weighting of the CPIX basket in January 2009.

The rand price of oil is up more than 100% from a year ago. The direct contribution to inflation from oil has been huge, which is quite clearly visible in the petrol price. But the indirect impact of higher oil prices is also notable, take for example the price of maize. Two important inputs into maize production are diesel and fertiliser, both oil by-products which are now causing a renewed surge in the maize price. It would appear that inflation and interest rates will deteriorate further before declining.

Money market rates have topped out but the FRA curve continues to price in a further 1% hike in interest rates (reflected in the 1 year NCD rate of 14%). The Coronation Strategic Income Fund has 62% exposure to these high yielding money market assets.

Preference shares are showing good value as their yields are linked to the prime rate. The ABSA preference share which is a core holding of the preference share exposure is yielding 12.4% non-taxable. We have continued to reduce the property holding in the portfolio, now at 2.1%, having sold off the bulk at the beginning of April. With a maximum possible holding of 10% in property, the fund is heavily underweight property. We will look to increase this as the environment improves and price volatility falls.

The Coronation Strategic Income Fund has a running yield of approximately 11.80% (before costs) and is being managed conservatively during these difficult times.

Mark le Roux and Tania Miglietta
Portfolio Managers

Fund category
Fund description

Domestic Fixed Interest Varied Specialist
A widely diversified, actively managed fund that aims to provide a higher level of income than a pure income fund.

Portfolio manager/s
Fund size
NAV
Benchmark

Mark le Roux and Tania Miglietta
R3.98 billion
1260.49 cents
BEASSA ALBI (1 - 3 year) TR Index

Launch date

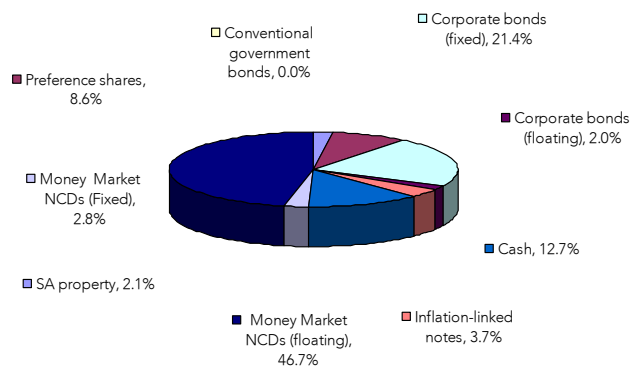
2 July 2001

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

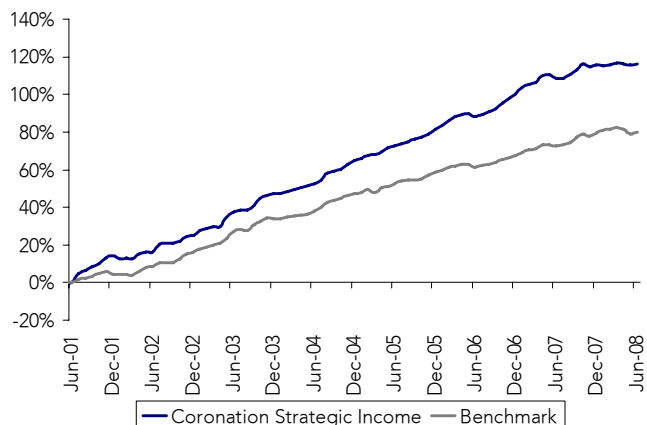
| Sector | 30 June 2008 |
|-----------------------------|---------------|
| Domestic Assets | 100.0% |
| Cash/Money Market | 62.2% |
| Bonds | 27.1% |
| Listed Property | 2.1% |
| Preference Shares | 8.6% |
| Other investments | 0.0% |
| International Assets | 0.0% |

PORTFOLIO COMPOSITION



PERFORMANCE AND RISK STATISTICS¹

CUMULATIVE PERFORMANCE SINCE INCEPTION



PERFORMANCE FOR VARIOUS PERIODS

| | Fund | Benchmark | Out-performance |
|-------------------------------|--------|-----------|-----------------|
| Year to date | 0.33% | 0.27% | 0.06% |
| Latest 12 months | 3.91% | 4.39% | -0.48% |
| Latest 36 months (annualised) | 7.75% | 5.63% | 2.12% |
| Latest 60 months (annualised) | 9.51% | 7.23% | 2.28% |
| Since inception (annualised) | 11.65% | 8.76% | 2.89% |
| 2007 | 7.73% | 7.07% | 0.66% |
| 2006 | 10.40% | 5.65% | 4.75% |
| 2005 | 9.85% | 7.70% | 2.15% |
| 2004 | 11.88% | 10.15% | 1.73% |

INCOME DISTRIBUTIONS

| Declaration | Payment | Amount | Dividend | Interest |
|-------------|------------|--------|----------|----------|
| 30/06/2008 | 01/07/2008 | 29.42 | 1.32 | 28.10 |
| 31/03/2008 | 01/04/2008 | 28.02 | 3.52 | 24.50 |
| 31/12/2007 | 01/01/2008 | 24.14 | 1.11 | 23.03 |
| 30/09/2007 | 01/10/2007 | 25.33 | 2.82 | 22.51 |

RISK STATISTICS SINCE INCEPTION

| | Fund | Benchmark |
|----------------------|--------|-----------|
| Annualised deviation | 3.50% | 2.79% |
| Sharpe ratio | 0.51 | -0.40 |
| Maximum gain | 29.19% | 15.89% |
| Maximum drawdown | -1.29% | -1.85% |
| Positive months | 88.10% | 84.52% |

MONTHLY PERFORMANCE RETURNS

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|-----------|--------|-------|-------|--------|--------|--------|-------|-------|-------|-------|--------|-------|
| Fund 2008 | -0.26% | 0.34% | 0.39% | -0.09% | -0.29% | 0.24% | | | | | | |
| Fund 2007 | 1.69% | 0.79% | 0.67% | 1.70% | 0.18% | -1.06% | 0.02% | 1.21% | 1.24% | 1.34% | -0.76% | 0.49% |
| 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% |

FEES (excl. VAT)

| | |
|---|-------------------|
| Initial Fee | Coronation: 0.00% |
| Annual Management Fee* | 1.00% |
| *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. | |
| Total Expense Ratio (TER) ² | 1.13% 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.