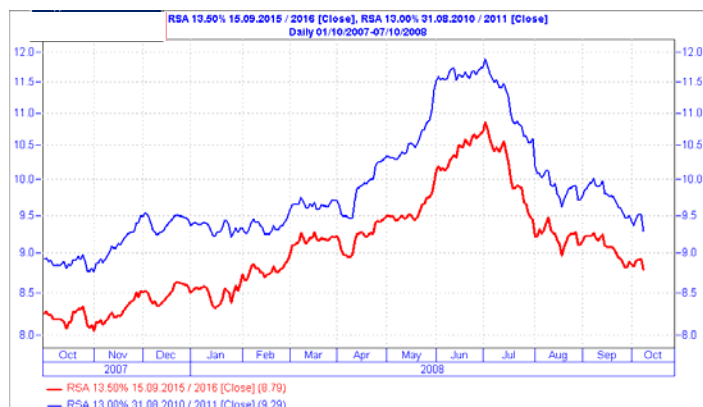


After a dismal first half of the year, in which the ALBI lost 6.7% since the end of 2007, bonds turned sharply in the third quarter. The ALBI racked up a positive performance in each month – including its 3rd-highest ever monthly return in July. The total return for the quarter was a hefty 12.6%. The OTHI sector, largely parastatals, was the star, returning some 15.3% over the quarter. Longer-dated bonds outperformed shorter-dated ones by a large margin as well, with the longest maturity bucket returning almost 20% for the quarter. Other fixed interest asset classes lagged dismally, with cash returning 3.1% and inflation-linked bonds showing a down quarter (-1.4%).

Bond and money market returns					
Name	September 2008	3 months	6 months	12 months	Year-to-date
All Bond	2.43%	12.6%	7.1%	6.0%	5.1%
GOVI	2.24%	12.0%	6.8%	6.3%	5.2%
OTHI	3.28%	15.3%	8.0%	3.8%	3.5%
Bonds 1-3 Years	1.37%	6.7%	5.3%	8.5%	7.0%
Bonds 3-7 Years	2.08%	11.6%	6.3%	5.5%	5.1%
Bonds 7-12 Years	2.51%	13.4%	7.0%	5.4%	4.5%
Bonds 12+ Years	3.93%	19.9%	9.7%	2.9%	2.5%
Cash	1.01%	3.1%	6.1%	12.0%	9.1%
Barclays BESA Govt Inflation-Linked Bonds	1.52%	-1.4%	4.6%	16.2%	10.2%

Source: Deutsche Securities

It can be seen from the chart below that bond yields had steadily risen from late last year till their peak around the end of the second quarter. This rise in bond yields had been largely driven by upside surprises in inflation (with both a weaker currency and sharply higher oil prices as major factors) and thus to the SARB's repo rate as well. In one sense, with bond yields having been driven well into double digits and undeniably cheap territory, they were ripe for retracement. On the other hand, the past quarter was a strange time to see that happen – given the background of financial market meltdown and risky assets losing favour, as evidenced especially in sharp weakness in both EMBI spreads and the rand.

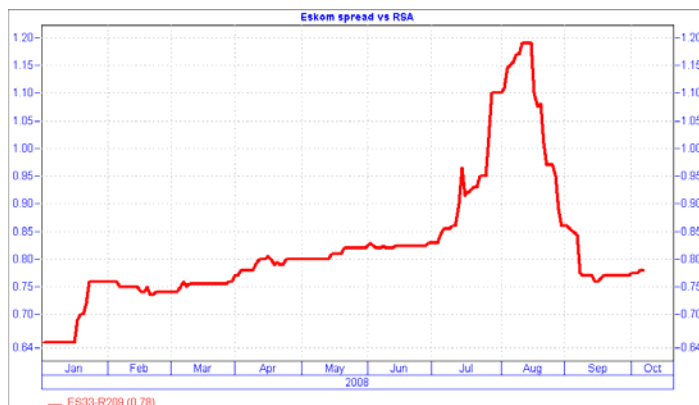


Source: Inet

Still, local markets took some succour from a spillover of the flight to quality (given poor equity performance and exchange controls), as well as what seemed to be a peak in the local short rate cycle following the release of the new CPI weights for next year and expectations of a sharp fall in inflation rates to come through in the first quarter of 2009. At the end of the second quarter there were still people looking for another 100bp or more rise in the repo rate; those forecasts were quickly scaled back and many analysts brought the timing of expected rate cuts sooner. Similar sentiments were expressed via the FRA market. More recently talk of aggressive rate cuts in SA has emerged; but we feel that in SA inflation is still too high and

growth not nearly slow enough to justify a rate cut with CPI almost double the upper end of the target range.

The strong performance of the OTHI subsector during the quarter was largely led by Eskom bonds. Following a credit rating downgrade by Moody's, the government made it clear that it would guarantee Eskom debt if requested, and Eskom later confirmed it was applying for such. As a result, spreads on Eskom debt narrowed dramatically (see chart below). While Eskom is a special case, appetite for non-government debt in general seemed to show some improvement over the quarter.



Source: Inet

The quarter's bond performance bears similarities to September 2001, when bonds strengthened despite a weakening rand – seemingly the only refuge for exchange control-constrained fund managers against a background of sharp equity weakness. Of course, a few months after 9/11 we saw a very sharp and nasty retracement in bond yields, but that did follow further sharp rand weakening and a change in expectations about SARB rates from further cuts, to hikes. None of these factors are what we currently expect – though it is as well to point out that we would have said exactly the same thing in September 2001, with the damage to the currency and effects of that really only becoming clear in late November/early December of that year.

There is perhaps a mitigating factor this time round – and that is that even with the sharp fall in the rand that we have seen over the past few weeks, the fall in commodities has offset that. For example, even after the petrol price reduction in October, there is still an over-recovery currently recorded. The inflationary implications of the rand's fall this time are being offset (so far anyway) by declines in commodity prices (including food prices). At the moment we still expect to see interest rate cuts from the second quarter of next year. However, the fact that bonds have run so far despite the increase in risk does make us cautious on the near-term outlook.

Thus, while we have been saying for some time that bonds offer value on a long-term basis, the sharp moves in the past quarter have in our opinion more than priced that in now, especially as we do not feel the market is adequately pricing in the short term risks. Indeed, on shorter-term measures bonds are now looking overvalued, and we still do not have much clarity as to whether some of these 'shorter-term' factors (such as the current increase in risk spreads) will in fact become more medium term ones. The Coronation Bond fund is thus currently positioned somewhat short vs. ALBI.

Mark le Roux
Portfolio Manager

CORONATION BOND

Class R
as at 30 September 2008

Fund category	Domestic Fixed Interest Bond
Fund description	Seeks to provide investors with a well-diversified exposure to the SA bond market.
Launch date	1 August 1997

Portfolio manager	Mark le Roux
Fund size	R520.1 million
NAV	1309.20 cents
Benchmark	BEASSA ALBI Index

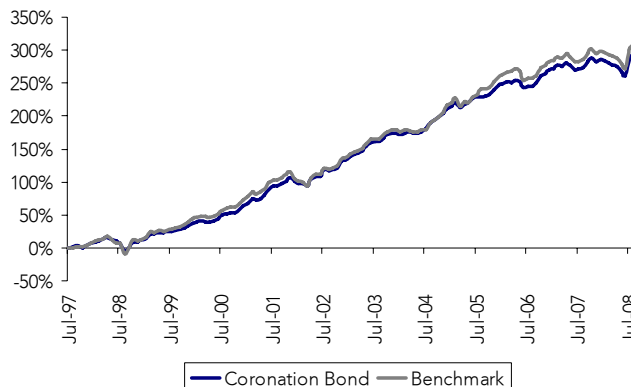
PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Maturity Band	30 September 2008
0 – 1 year	14.63%
1 – 3 years	19.56%
3 – 7 years	28.85%
7 – 12 years	13.18%
12+ years	23.79%

PERFORMANCE AND RISK STATISTICS¹

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest
30/09/2008	01/10/2008	54.77	54.77
31/03/2008	01/04/2008	51.29	51.29
30/09/2007	01/10/2007	53.11	53.11
31/03/2007	01/04/2007	49.74	49.74

PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	4.82%	5.05%	-0.23%
Latest 12 months	5.71%	5.98%	-0.27%
Latest 36 months (annualised)	6.94%	6.65%	0.29%
Latest 60 months (annualised)	8.65%	8.68%	-0.03%
Since inception (annualised)	13.31%	13.51%	-0.20%
2007	4.29%	4.21%	0.08%
2006	6.76%	5.48%	1.28%
2005	10.96%	10.80%	0.16%
2004	13.94%	15.25%	-1.31%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	8.00%	9.44%
Sharpe ratio	0.22	0.21
Maximum gain	26.21%	26.36%
Maximum drawdown	-19.02%	-22.26%
Positive months	73.88%	73.13%

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2008	-0.47%	-0.90%	-0.62%	-0.58%	-2.30%	-1.61%	8.03%	1.18%	2.37%			
Fund 2007	0.65%	1.25%	-0.27%	1.47%	-0.95%	-2.02%	0.39%	0.68%	2.23%	1.59%	-1.39%	0.67%
Fund 2006	0.72%	0.93%	-0.26%	1.02%	-0.76%	-2.38%	0.63%	-0.18%	1.43%	3.26%	0.91%	1.34%

FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee*	0.75%
* 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	0.86% 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.