

In recent weeks, the US and European financial institutions experienced unprecedented turmoil in the money markets in which they operate. The US Federal Reserve and Treasury, the Bank of England, the European Central Bank, and national Treasuries are all stepping-in to provide capital (or a rescue plan) to institutions that have had difficulty receiving daily funding. This is in a market which is in a gridlock and hoarding cash. In some cases, financial institutions have been bought up or nationalised, and in others depositors' funds have been guaranteed by the respective central banks.

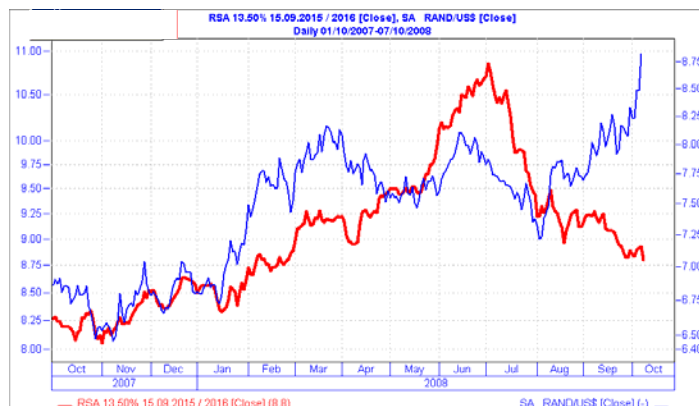
We draw your attention to our view that this is very much an offshore banking problem, something from which South African banks have been largely protected. The primary reason for this is the existence of SA Foreign Exchange Controls which prevent local banks from participating aggressively in the broader international banking environment. The controls have also ensured that most of the SA banks' funding is from SA sources, which has prevented their liquidity from being threatened by nervous international funders.

The SA Reserve Bank requires that SA banks be well capitalised and that international banks operating in SA do so as a full branch of the parent company where all local deposits are fully guaranteed by the parent. Further to this, exchange controls also prevent these banks from placing excessive amounts of SA depositors' cash in the international arena.

We are comfortable that the SA banks are sound. They are not experiencing funding difficulty and are most unlikely to suffer the same problems as their international counterparts are currently undergoing. It is also important to note that the SA banks carry a strong support rating by the SA Reserve Bank.

The Coronation Income Fund has weathered the financial markets storm relatively well, with its high exposure to SA banks in the money market contributing to the fund's overall running yield of 12.12%.

During the quarter the fund's duration was kept just short of benchmark duration, given the market volatility. Bond exposures, made up of a few select corporate bonds accumulated at the higher spreads, fared well as bonds rallied after reaching a high of 10.85% (see chart below). The portfolio holds no RSA bonds as we see better value in the corporate sector and have a 20% holding in floating rate bonds, which offer a very attractive spread over JIBAR, the reference rate to which yields reset each quarter.



At first glance of the above chart, the strong bond market despite a weaker currency (with its inflation implications), may seem odd. However, it 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.

There is perhaps a mitigating factor this time around, which is the fall in commodity prices have offset the recent sharp depreciation in the rand. At the moment, we still expect to see interest rate cuts from the second quarter of 2009. However, the fact that bonds have run so far despite the increase in risk does make us cautious on the near-term outlook.

While we have been saying for some time that bonds offer value on a long-term basis, the sharp moves over the past quarter have, in our opinion, more than priced that in. We do not feel that the market is adequately pricing in the short term risks and bonds are now looking overvalued.

The Coronation Income Fund continues to be conservatively managed with the main focus being on generating yield and managing interest rate and liquidity risk. The fund returned 4.6% for the quarter and 9.3% for the last 12 months, outperforming its benchmark which returned 8.5% for the 12 month period.

Tania Miglietta
Portfolio Manager

Fund category Domestic Fixed Interest Income
Fund description Aims to provide a high level of current income with moderate levels of capital growth. Stability of capital invested is of prime focus.
Launch date 3 April 2000

Portfolio manager Tania Miglietta
Fund size R78.7 million
NAV 1091.66 cents
Benchmark BEASSA ALBI (1 – 3 year) TR Index

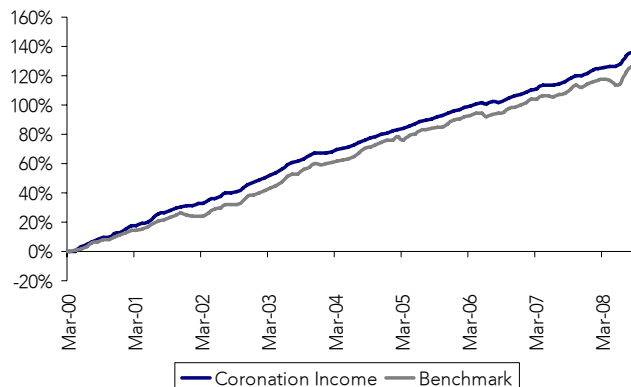
PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Maturity Band	30 September 2008
0 – 12 months	12.22%
1 – 3 years	61.98%
3 – 7 years	25.80%

PERFORMANCE AND RISK STATISTICS¹

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest
30/09/2008	01/10/2008	28.60	28.60
30/06/2008	01/07/2008	26.43	26.43
31/03/2008	01/04/2008	24.32	24.32
31/12/2007	01/01/2008	24.23	24.23

PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	7.62%	7.03%	0.59%
Latest 12 months	9.28%	8.46%	0.82%
Latest 36 months (annualised)	7.54%	7.51%	0.03%
Latest 60 months (annualised)	7.87%	8.03%	-0.16%
Since inception (annualised)	10.77%	10.25%	0.52%
2007	6.79%	7.07%	-0.28%
2006	5.93%	5.65%	0.28%
2005	8.16%	7.70%	0.46%
2004	8.52%	10.17%	-1.64%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	1.95%	2.90%
Sharpe ratio	0.34	0.05
Maximum gain	101.41%	26.14%
Maximum drawdown	-0.26%	-1.85%
Positive months	95.10%	87.25%

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2008	0.95%	0.54%	0.36%	0.12%	0.14%	0.75%	2.39%	0.96%	1.18%			
Fund 2007	0.66%	0.82%	0.42%	0.86%	0.27%	-0.26%	0.59%	0.58%	1.12%	0.89%	-0.23%	0.88%
Fund 2006	0.56%	0.60%	0.53%	0.60%	0.48%	-0.25%	0.60%	-0.13%	0.61%	0.83%	0.71%	0.64%

FEEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee**	0.75%
<small>* 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.</small>	
Total Expense Ratio (TER)²	0.92% 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 0.75% and is applied to each contribution and deducted before investment is made.
- Ongoing advice fees may be negotiated to a maximum of 0.50% per annum 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.