

In recent weeks, the US and European financial institutions have 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, banks have been bought up or nationalised, and in others depositors' funds have been guaranteed by the respective central banks.

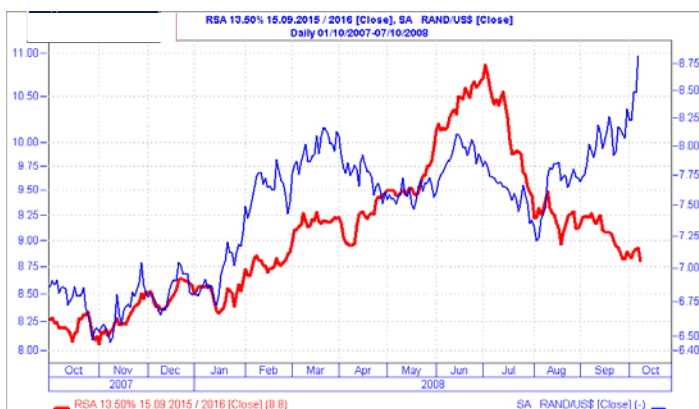
We draw your attention to our view that this is very much an offshore banking problem, something from which South African banks have been largely protected. The primary reason for this is the existence of SA Foreign Exchange Controls which prevent local banks from participating aggressively in the broader 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 Strategic 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 yield to maturity of 11.5%.

During the quarter the fund's duration was kept just short of benchmark duration, given the market volatility. Bond exposures, made up of corporate bonds accumulated at the higher spreads, fared well as bonds rallied after reaching a high of 10.85% (see chart below). During September we introduced the African Bank bond (1% of portfolio) at a spread of JIBAR+300bp and sold the Old Mutual bond on concerns around the US life business, which appears to be caught up in the global turmoil. The portfolio holds no RSA bonds as we see better value in the corporate sector and have a holding in floating rate bonds, which offer a good 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 – 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, notwithstanding 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 (thus far) by declines in commodity prices (including food prices). 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.

We have been slowly adding to the property holdings of the fund (currently at 3.4% of portfolio), by introducing selected stocks such as Resilient, Redefine Income Fund and Growthpoint into the mix. These stocks are expected to produce above average returns for the sector over the next few years.

The fund currently holds no securitisation assets. We have always held the view that securitisation was largely overpriced and did not compensate investors for the associated uncertainties, risks and lack of liquidity. We were well rewarded for staying away from this market as prices fell sharply once interest rates rose and spreads widened. We continue to approach this market with extreme caution and during these volatile times are especially averse to the risk that certain securitisation may pose.

Preference shares, with ABSA being the largest holding, are an ongoing holding in the fund. The ABSA preference share is yielding 11.8%.

The Coronation Strategic 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 4.97% for the quarter.

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.

Launch date

2 July 2001

Portfolio manager/s
Fund size
NAV
Benchmark

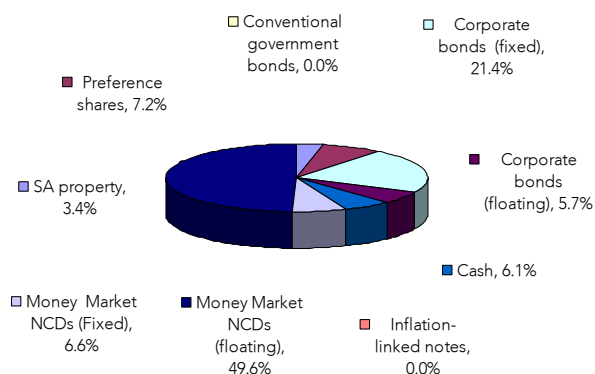
Mark le Roux and Tania Miglietta
R3.6 billion
1292.23 cents
BEASSA ALBI (1 - 3 year) TR Index

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

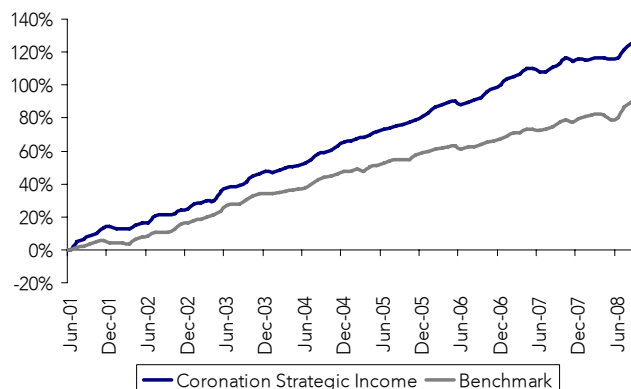
Sector	30 September 2008
Domestic Assets	100.0%
Cash/Money Market	62.2%
Bonds	27.1%
Listed Property	3.4%
Preference Shares	7.3%
International Assets	0.0%

PORTFOLIO COMPOSITION As at 30 September 2008



PERFORMANCE AND RISK STATISTICS¹

CUMULATIVE PERFORMANCE SINCE INCEPTION



PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	5.32%	7.03%	-1.71%
Latest 12 months	6.44%	8.46%	-2.02%
Latest 36 months (annualised)	8.83%	7.51%	1.32%
Latest 60 months (annualised)	10.00%	8.03%	1.97%
Since inception (annualised)	11.98%	9.43%	2.55%
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
30/09/2008	01/10/2008	35.83	4.12	31.71
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

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	3.49%	2.98%
Sharpe ratio	0.57	-0.18
Maximum gain	29.19%	15.89%
Maximum drawdown	-1.29%	-1.85%
Positive months	88.51%	85.06%

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%	2.45%	1.43%	1.02%			
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	1.14% 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.