

## PORTFOLIO MANAGER COMMENTARY

The All Bond Index (ALBI) gave up some ground in June, resulting in an anaemic return of 0.3% for the quarter. The shorter-dated area of the curve was the right area to be in, but that still underperformed cash (both in June and for the quarter as a whole). While inflation-linked bonds performed well throughout the period, they lagged cash in June. Year to date, inflation linkers have been the best performing asset class, followed by cash, with the ALBI lagging significantly behind.

A number of factors undermined local bond yields this year, and especially in the second quarter when yields failed to take much heart from, for example, a stronger rand. Also note that the lacklustre performance of bonds has happened despite the aggressive easing in short rates this year – the South African Reserve Bank (SARB) took just 6 months to unwind almost all of the tightening put in place over the two years from June 2006 to June 2008.

Firstly, consumer price inflation (CPI) has remained persistently high this year despite fast declining producer price inflation. While we may yet see some more rapid downward movement in CPI owing to the recent stronger rand, many analysts have revised their forecasts higher, therefore undermining longer-dated bonds, but adding support to inflation-linked bonds.

A second factor undermining local bonds this past quarter has been the rise in global bond yields. The US 10-year yield has risen from around 2.70% to 3.50%, threatening the 4% level at one point. As talk on the global stage has turned to recovery and with it exit strategies from the expansionary policies, including quantitative easing, global bond yields have risen. SA bonds often move in tandem with global bonds and this time has been no exception.

Thirdly, as fiscal positions almost everywhere have suffered from the economic slowdown (i.e. declining tax revenues as well as spending pressures), concerns started to mount about the large increases in the supply of bonds required to fund fiscal deficits. South Africa has been no exception to this, and just past quarter-end Finance Minister Pravin Gordhan announced some details of the revenue shortfall to date – significantly worse than many in the market had anticipated. From an originally budgeted deficit of 3.8% of GDP announced in February, it now looks likely that the deficit will surpass of 5% of GDP. Indeed, if trends do not improve from what we have seen so far in the fiscal year, it could even be in excess of 6%. While the exact intentions for funding this deficit remain unclear at present, what is clear is that the domestic bond market will not escape unscathed.

Finally, despite our earlier mention of the rapid unwind of last year's rate increases, note that the SARB paused its easing cycle in June against market expectations of a further 50bp repo rate cut. While this is positive for the bond market in the longer term (as it supports the longer term inflation outlook), in the short term it acted to brake potential gains in domestic bonds.

The near-term outlook for bonds remains murky. On the one hand, a positive argument can be made from the likely trends in CPI and the fact that the market may well have underestimated the effect of a stronger rand on pulling inflation rates down from current levels. But on the other hand, concerns about supply pressure will remain and may well weigh the market down for a while, especially while the exact composition of the revised funding requirement remains unknown.

Money market rates have fallen dramatically this year, but retraced by a percent in the 1-year area after the interest rate announcement in June. Both Treasury bill and corporate paper issuance have increased this year, taking substantial market share from the banks. This is starting to put some upward pressure on NCD rates. We took the opportunity to switch out of a few select corporate bonds and medium-dated RSA bonds just prior to the rates announcement, and switched the proceeds into the 1-year NCD at its higher levels.

We hold 4% of the fund in inflation-linked bonds which perform well in a high inflation environment. They are proving their worth as a good investment given how sticky inflation has been this year.

Corporate bonds, which include parastatals, are showing very attractive yields given new issuance (greater supply) in the market at ever-widening credit spreads. Issuers have been looking for funding via this market as bank funding becomes more challenging, and the bonds have been lapped up by funds seeking higher yields.

The fund has done particularly well in this volatile market, returning 13.5% over the past year. It continues to weather the storm of volatile markets in a challenging macro-economic environment by remaining invested in good quality credits with a high percentage to floating rate and inflation-linked investments functioning as a good interest rate and inflation hedge.

**Portfolio manager**

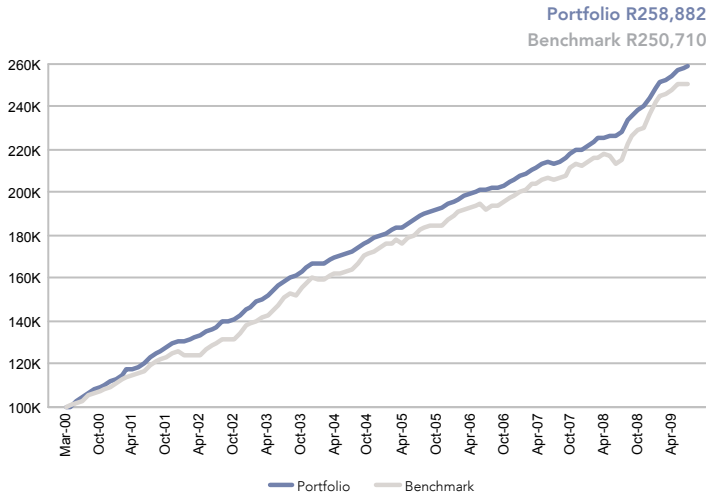
Tania Miglietta

**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** 03 April 2000  
**Portfolio manager/s** Tania Miglietta

**Fund size** R81.65 million  
**NAV** 1096.99 cents  
**Benchmark** BEASSA ALBI (1-3 year) TR Index  
**Risk profile** Cons Mod Aggr

## PERFORMANCE AND RISK STATISTICS<sup>1</sup>

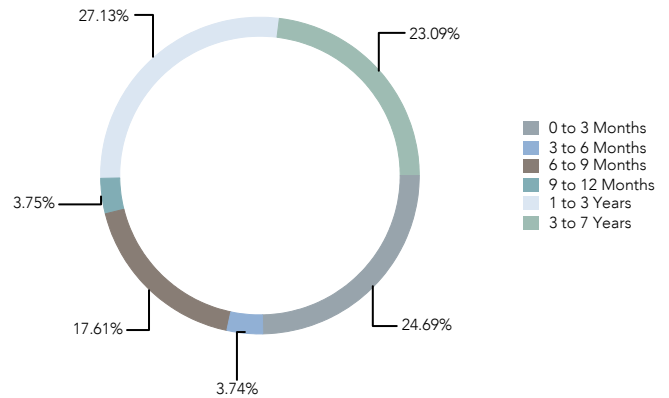
### GROWTH OF A R100,000 INVESTMENT



## PORTFOLIO DETAIL

### MATURITY PROFILE

As at 30 Jun 2009



## PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	158.9%	150.7%	8.2%
Since Inception (annualised)	10.8%	10.4%	0.4%
Latest 5 years (annualised)	8.5%	8.8%	(0.3)%
Latest 3 years (annualised)	8.8%	9.3%	(0.4)%
Latest 1 year (annualised)	13.5%	16.8%	(3.2)%
Year to date	4.1%	3.7%	0.4%
2008	12.2%	12.9%	(0.7)%
2007	6.8%	7.1%	(0.3)%
2006	5.9%	5.6%	0.3%
2005	8.2%	7.7%	0.5%

## MATURITY PROFILE DETAIL

As at 30 Jun 2009

0 to 3 Months	24.7%
3 to 6 Months	3.7%
6 to 9 Months	17.6%
9 to 12 Months	3.7%
1 to 3 Years	27.1%
3 to 7 Years	23.1%

## RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	1.9%	2.9%
Sharpe Ratio	0.34	0.09
Maximum Gain	101.4%	26.1%
Maximum Drawdown	(0.3)%	(1.9)%
Positive Months	95.5%	88.3%

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest
30 Jun 2009	01 Jul 2009	22.37	22.37
31 Mar 2009	01 Apr 2009	26.48	26.48
31 Dec 2008	02 Jan 2009	28.79	28.79
30 Sep 2008	01 Oct 2008	28.60	28.60

## MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2009	1.01%	0.62%	0.47%	1.04%	0.47%	0.46%							4.10%
Fund 2008	0.95%	0.54%	0.36%	0.12%	0.14%	0.75%	2.39%	0.96%	1.18%	0.68%	1.73%	1.76%	12.20%
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%	6.80%

## 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.

## 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.

**Total Expense Ratio (TER)<sup>2</sup>** 0.96% per annum

Unit trusts should be considered a medium- to long-term investment. The value of units may go down as well as up. Past performance is not necessarily an indication of future performance. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. Instructions must reach the Management Company before 2pm (12pm for the Money Market Fund) to ensure same day value. Fund valuations take place at approximately 15h00 each business day and forward pricing is used. Coronation is a Full member of the Association for Savings & Investment SA (ASISA). <sup>1</sup>Performance is quoted from Morningstar as at 30 June 2009 for a lump sum investment using Class A NAV prices with income distributions reinvested. Performance figures are quoted after the deduction of all costs incurred within the fund. <sup>2</sup>The TER is calculated as a percentage of the average NAV of the portfolio incurred as charges, levies and fees in the management of the portfolio for a rolling 12-month period to end March 2009. A higher TER ratio does not necessarily imply a poor return nor does a low TER imply a good return. The current disclosed TER cannot be regarded as an indication of future TER's.