

## PORTFOLIO MANAGER COMMENTARY

Despite two consecutive higher-than-expected inflation releases in the first two months of this year, expectations of rate cuts intensified heading into 2009. This occurred as local and global economic indicators continued to show significant weakness coupled with developed country central banks increasing their pace of monetary easing via both interest rates and direct liquidity injections.

Against that background, SA money market rates continued their steady fall as prospects for lower interest rates became more likely. The Reserve Bank surprised the market with its call to meet monthly rather than bi-monthly, which signalled that the bank would accelerate repo rate cuts, although Governor Tito Mboweni subsequently said that the MPC would not feel compelled to cut rates at every meeting. On 24 March, at the first of the monthly meetings, the Governor announced a 1% repo rate cut, equalling the February cut and in line with expectations. This resulted in 2.5% in interest rate cuts so far in this easing cycle, bringing the repo rate to 9.5%. The FRA market has been pricing in a quick succession of interest rate cuts, expecting the market to bottom out with the repo rate as low as 6.5% at one point. This has since been tempered somewhat, with a low of 7% now expected.

The NCD market traded below 8% for a one-year NCD, but quickly retraced to close the month at 8.30%. The market has rallied hard from its high of 14% in mid-2008, and considering that it was still above 13% as recently as October 2008.

The bond market lost just over 5% in the first quarter, with the losses realised in January and February before the All Bond Index (ALBI) stabilized in March. There has been a significant difference in performance across maturity bands, however. For the quarter, short-dated bonds returned +2.3% while the longest dated bonds (12 years and more) lost 10.8%. The short end was supported by a 200bp reduction in the repo rate year-to-date, coupled with expectations of further aggressive easing. Meanwhile, the long end underperformed due to higher-than-expected inflation data and probably some concerns about the large amount of supply due to hit the market, as well as a retracement in global bonds.

## Bond and Money Market

Name	March 2009	3 months	6 months	12 months	Year-to-date
<b>All Bond</b>	<b>0.04%</b>	<b>-5.1%</b>	<b>5.6%</b>	<b>13.1%</b>	<b>-5.1%</b>
GOVI	0.01%	-4.8%	5.6%	12.9%	-4.8%
OTHI	0.15%	-6.4%	5.6%	14.0%	-6.4%
Bonds 1-3 Years	0.64%	2.3%	7.9%	13.7%	2.3%
Bonds 3-7 Years	0.06%	-2.3%	7.6%	14.4%	-2.3%
Bonds 7-12 Years	0.38%	-5.9%	5.7%	13.1%	-5.9%
Bonds 12+ Years	-0.50%	-10.8%	3.4%	13.4%	-10.8%
Cash	0.85%	2.8%	5.9%	12.3%	2.8%
Barclays BESA Govt Inflation-Linked Bonds	3.33%	2.4%	5.6%	10.4%	2.4%

Source: Deutsche Bank

With regards to local fundamentals, there are conflicting influences on bonds. We are in a situation where the growth outlook has been continually downgraded and while opinions vary on its extent, a recession has now become the consensus forecast. As an offset, however, the inflation outlook – which briefly looked very promising late last year – has taken a turn for the worse. Both January and February CPI numbers (released in February and March) surprised the market on the upside, and the oil price appears to have arrested its decline.

Furthermore, funding pressures from the budget deficit – as well as funding for the parastatals' investment programme – is set to add significantly to supply of bonds.

In the shorter term we believe that bonds may remain overvalued as the market continues to focus on slow growth and further repo rate reductions. In our view the bond market is fundamentally expensive and we hold no government bonds in the Strategic Income unit trust.

Also on the negative side during the quarter, corporate spreads have widened somewhat, reflecting the markets over saturation of corporate debt and the increased risk prevailing in the market at the moment. We do however see this spread widening as a very good buying opportunity for fixed income funds.

The Coronation Strategic Income Fund holds around 54% in money market assets, with another 4% in floating rate corporate bonds. These act as an interest rate volatility buffer and have provided the fund with much needed protection during recent months. These assets also contribute to the overall yield of the fund as they are largely linked to JIBAR with a generous spread.

A new entry into this fund is a holding (4%) in corporate Inflation linked bonds which were bought at a real yield of between 5.5% and 6% and will provide inflation protection going forward. Given market pricing on inflation linked bonds relative to nominal bonds, we believe that the better value lies in the inflation linked market.

The fund has a duration of 1.08 which is shorter than that of its benchmark, the 1 – 3 year Bond Index (1.25), which given the nature of the funds mandate to provide yield and capital protection where possible, we deem it prudent.

Holdings in listed property (6.2%) and listed preference shares (7.3%) remained relatively constant and we expect these asset classes to start delivering decent returns relative to cash with the acceleration of the interest rate down cycle.

**Fund category** Domestic - Fixed Interest - Varied Specialist  
**Fund description** A widely diversified, actively managed fund that aims to provide a higher level of income than a pure income fund.  
**Launch Date** 02 July 2001  
**Portfolio manager/s** Mark le Roux and Tania Miglietta

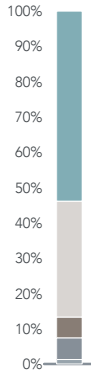
**Fund size** R 3.09 billion  
**NAV** 1289.94 cents  
**Benchmark** BEASSA ALBI (1-3 year) TR index  
**Risk profile**

Cons Mod Aggr

## PORTFOLIO DETAIL

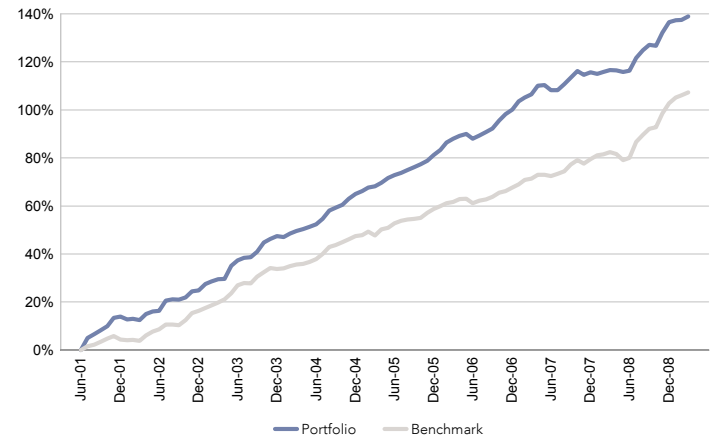
### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Mar 2009
<b>Domestic Assets</b>	<b>100.00%</b>
■ Cash	53.93%
■ Bonds	32.86%
■ Listed Property	5.87%
■ Preference Shares	7.34%



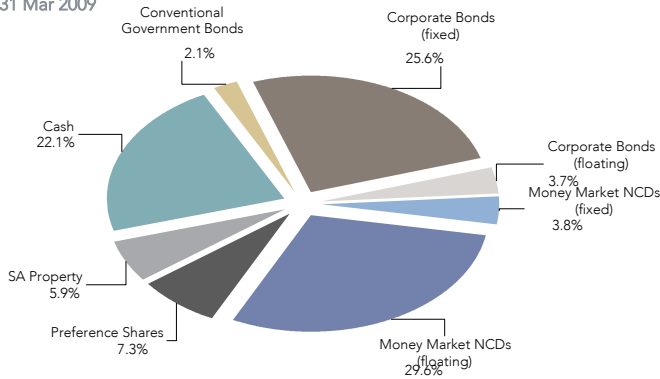
## PERFORMANCE AND RISK STATISTICS

### CUMULATIVE PERFORMANCE SINCE INCEPTION



## PORTFOLIO COMPOSITION

As at 31 Mar 2009



## PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	138.95%	107.34%	31.61%
Since Inception (annualised)	11.90%	9.87%	2.03%
Latest 60 months (annualised)	9.82%	8.86%	0.96%
Latest 36 months (annualised)	8.33%	8.65%	(0.32)%
Latest 12 months (annualised)	10.31%	13.65%	(3.34)%
Year to date	1.01%	2.28%	(1.27)%
2008	9.72%	12.90%	(3.18)%
2007	7.73%	7.07%	0.66%
2006	10.40%	5.65%	4.75%
2005	9.85%	7.70%	2.16%

## YIELDS FOR THE LAST FOUR PERIODS

Declaration	Payment	Amount	Dividend	Interest
31 Mar 2009	01 Apr 2009	31.62	3.19	28.43
31 Dec 2008	02 Jan 2009	31.85	0.89	30.96
30 Sep 2008	01 Oct 2008	35.83	4.12	31.71
30 Jun 2008	01 Jul 2008	29.42	1.32	28.10

## RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	3.48%	3.04%
Sharpe Ratio	0.51	(0.08)
Maximum Gain	29.19%	15.89%
Maximum Drawdown	(1.29)%	(1.85)%
Positive Months	88.17%	86.02%

## MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2009	0.35%	0.06%	0.60%									
Fund 2008	(0.26)%	0.34%	0.39%	(0.09)%	(0.29)%	0.24%	2.45%	1.43%	1.02%	(0.15)%	2.39%	1.90%
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%

## 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) <sup>2</sup>	1.14% per annum
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## 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.

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 short selling 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 31 March 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 December 2008. 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.