

PORTFOLIO MANAGER COMMENTARY

Following a weak November, the All Bond Index (ALBI) gained 1.7% in December, which brings its return for the final quarter of 2010 to 0.7%. For the 12 months to December, bonds returned 15%. Although this performance was well ahead of other fixed interest instruments (with inflation linkers returning 11% and cash returning 6.9%) as well as preference shares returning 13.6%, bonds lagged equities with the JSE All Share Index returning 19% for the year.

Bond and money market returns

Name	December	3	6	12
	2010	months	months	months
All Bond	1.73%	0.7%	8.9%	15.0%
GOVI	1.69%	0.8%	8.6%	14.6%
OTHI	1.96%	0.4%	10.0%	17.1%
Bonds 1-3 Years	0.62%	1.8%	4.2%	8.8%
Bonds 3-7 Years	1.24%	1.8%	6.4%	12.8%
Bonds 7-12 Years	1.93%	0.9%	8.9%	16.0%
Bonds 12+ Years	2.14%	-0.6%	11.2%	15.9%
Cash	0.49%	1.5%	3.2%	6.9%
Barclays/ABSA Govt Inflation-Linked Bonds	0.34%	0.9%	5.6%	11.0%

Source: Deutsche Bank

The small gain posted by SA bonds in the fourth quarter was set against a mixed background of influences. On the positive side, the rand strengthened during the period and appetite for emerging market bonds in general remained healthy. This was evidenced by a lower EMBI spread. However, US bond yields rose during the period on improved optimism about a recovery in the US. The effect of local short rates was interesting: bonds held onto their third quarter gains early in the fourth quarter of 2010, partly on optimism about another rate cut. Although this optimism was rewarded with a 50bp cut to 5.5% by the SARB in late November, it did not support the bond market. In fact, bonds sold off in response to the rate cut – possibly signalling some investor concern about a potential upward move in inflation this year. This concern would have been underpinned by two consecutive worse-than-expected CPI inflation numbers (even if the absolute level is still low, at 3.6% in November). Breakeven inflation derived from the shorter end of the inflation-linked curve (2013 and 2017) remains near the top of the target range, at over 5.7%.

Foreigners also turned less positive on SA bonds during the period. While flows into emerging market bond funds slowed, in general they did not turn negative. However, this was not the case in South Africa, where foreigners sold a net R24 billion worth of bonds over the period. This came after very strong buying in the first three quarters of the year (which had been largely in line with general emerging market flows). For the year as a whole, foreigners purchased a net R44.5 billion worth of bonds – a record inflow for a single year.

Recent fiscal data remains a creeping concern. Earlier in the year we had thought that National Treasury's Budget numbers were too pessimistic – and indeed the Budget deficit was revised down in the Medium Term Budget Policy Statement. However, the past couple of months' data appear to have been weaker than might be expected (even taking seasonal factors into consideration). This has been a combination of weaker revenue performance and continued steady expenditure growth. At this stage we appear unlikely to outperform Government's revised target of a Budget deficit of 5.3% of GDP in FY10/11. If revenue does not start improving soon, the deficit may in fact slightly exceed this target.

A myriad of factors are likely to affect SA bonds this year and on balance we believe we are likely to see bond yields rising over the course of the year. The main factors are:

- US growth is expected to gain further traction and we expect US bond yields to rise over the year in response. Over the long term, this is an important driver of SA bond yields.
- While emerging market growth remains attractive, concerns are building about inflation in emerging markets and bond yields in these countries could therefore come under pressure too.
- More specifically, we also expect inflation in SA to rise towards the upper end of the target range as base effects reduce the positive currency impact and commodity price rises (particularly food and oil) outstrip the currency.
- Risk appetite remains uncertain, with the fiscal crisis in the euro peripheral countries far from resolved.
- While the rand has performed well and may continue to do so for a while, we believe the currency is overvalued. Further, improving SA growth and higher income payments to foreign holders of domestic securities are likely to see the current account deteriorate, which will put pressure on the currency should capital inflows lose momentum.
- We do not believe there is further scope for cutting interest rates. Should any further rate cuts indeed materialise, we would take that as another negative for the longer-term inflation outlook.

With all that in mind, we retain an underweight position relative to benchmark modified duration in the portfolios and retain a holding in inflation-linked bonds.

Portfolio manager

Mark le Roux

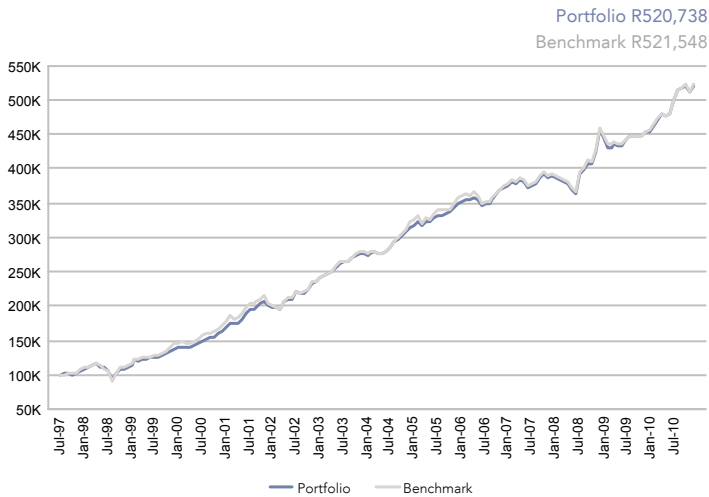
Fund category Domestic - Fixed Interest - Bond
Fund description Seeks to provide investors with a well diversified exposure to the SA bond market.
Launch date 01 August 1997
Portfolio manager/s Mark le Roux

Fund size R234.40 million
NAV 1367.88 cents
Benchmark BEASSA ALBI Index
Risk profile



PERFORMANCE AND RISK STATISTICS¹

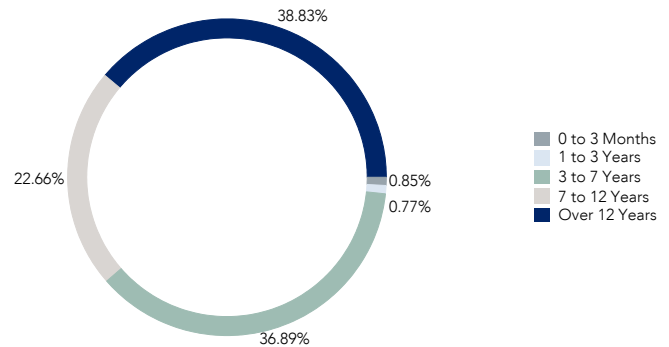
GROWTH OF A R100,000 INVESTMENT



PORTFOLIO DETAIL

MATURITY PROFILE

As at 31 Dec 2010



PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	420.7%	421.5%	(0.8)%
Since Inception (annualised)	13.1%	13.1%	0.0%
Latest 10 years (annualised)	12.2%	11.7%	0.6%
Latest 5 years (annualised)	8.3%	7.9%	0.4%
Latest 3 years (annualised)	10.2%	10.0%	0.2%
Latest 1 year (annualised)	15.0%	15.0%	0.0%
Year to date	15.0%	15.0%	0.0%
2009	(0.6)%	(1.0)%	0.4%
2008	17.1%	17.0%	0.2%
2007	4.3%	4.2%	0.1%

MATURITY PROFILE DETAIL

Sector	31 Dec 2010
0 to 3 Months	0.9%
1 to 3 Years	0.8%
3 to 7 Years	36.9%
7 to 12 Years	22.7%
Over 12 Years	38.8%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	7.9%	9.1%
Sharpe Ratio	0.27	0.23
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	73.3%	72.7%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest
30 Sep 2010	01 Oct 2010	51.49	51.49
31 Mar 2010	01 Apr 2010	50.62	50.62
30 Sep 2009	01 Oct 2009	51.16	51.16
31 Mar 2009	01 Apr 2009	54.92	54.92

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2010	0.01%	1.92%	2.17%	1.33%	(0.12)%	0.42%	4.00%	2.95%	0.79%	0.75%	(1.63)%	1.55%	15.00%
Fund 2009	(2.55)%	(2.85)%	(0.28)%	1.15%	(0.19)%	(0.13)%	1.48%	1.55%	0.19%	(0.25)%	0.13%	1.24%	(0.60)%
Fund 2008	(0.47)%	(0.90)%	(0.62)%	(0.58)%	(2.30)%	(1.61)%	8.03%	1.18%	2.37%	0.02%	4.24%	7.17%	17.10%

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	0.88% per annum
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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). ¹Performance as calculated by Coronation as at 31 December 2010 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. ²The 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 September 2010. 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.

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.