

## PORTFOLIO MANAGER COMMENTARY

**2011 in review**

The bond market performed largely in line with its yield to maturity (YTM) for the year. The long dated benchmark government bond (R186 2026 maturity) started at a YTM of 8.30% and ended it at slightly weaker at 8.47%. The All Bond Index recorded 8.80% for the year. The star performance within the index was delivered by the shorter dated R203 (2017 maturity) generating a return of 10.80%, while the ultra long dated R209 (2036 maturity) delivered the worst performance, returning only 2.70%.

Inflation-linked bonds (ILBs) had a stellar year, with the index returning 13% for 2011. The 5-year government ILB produced the top return of 16.5% within the index. The very short dated inflation-linked bonds saw their real yields decline into negative territory (R189 2013 maturity declined to -0.15% real yield) as demand for inflation protection increased sharply in response to a combination of headline inflation breaching the upper end of the Reserve Bank's target range and short rates on money market instruments moving into negative real territory.

For the local fixed interest market, 2011 was characterised by rising inflation, a depreciating currency (the rand lost 22% against the US dollar), rocketing food prices and a materially increasing fiscal deficit; all of which should have been substantially negative for a bond market. However continued concerns over global growth, plunging global bond yields (US 10-year is now below 2%), worries over the fiscal situation in a number of European countries, the continued foreign bond investor appetite for yield along with record low domestic short rates resulted in a decent offset to the fundamental negative backdrop for bonds.

**Themes and expectations for 2012**Inflation

We expect inflation to remain elevated and above the 6% upper end of the Reserve Bank's target range during the course of 2012. The main drivers of this would appear to be food prices and the depreciation in the currency experienced last year. The maize price again reached new highs in December, with the year on year rate of change of this very important soft commodity now running at 99% over 12 months.

Short rates

The next move in short rates, we believe, will be upwards. However, given the relatively dovish stance of the Monetary Policy Committee, this will most likely only take place in the second half of the year. With a repo rate at 5.50% and inflation (in our view) likely to average above 6%, negative real returns can be expected in money market assets.

Yield curve

Government needs to borrow in excess of R150 billion from the bond market to fund the budget deficit in the new fiscal year. This is a sizeable issuance for the market to absorb and is likely to place upward pressure on bond yields during the course of the year, especially at the back end of the curve where most of the issuance seems likely to take place. With the Reserve Bank trying to keep short rates unchanged for as long as possible, this may result in the yield curve continuing to steepen in the early part of the year. However as soon as the first rate hike is signalled and believed by the market, the yield curve should flatten quite quickly.

Looking forward

Global government bond yields at sub 2% are unsustainable. A sell-off in global bonds would be a major risk to our bond market, particularly when combined with the large funding overhang that we face this year. In addition, any delay by the Reserve Bank to take action against the rising inflation trend could have major ramifications for the local bond market – the longer they wait the more entrenched higher inflation expectations become.

We continue to run a lower than benchmark duration position in the portfolio, coupled with a holding in inflation-linked bonds.

**Portfolio manager**

Mark le Roux

# CORONATION BOND

CLASS R as at 31 December 2011

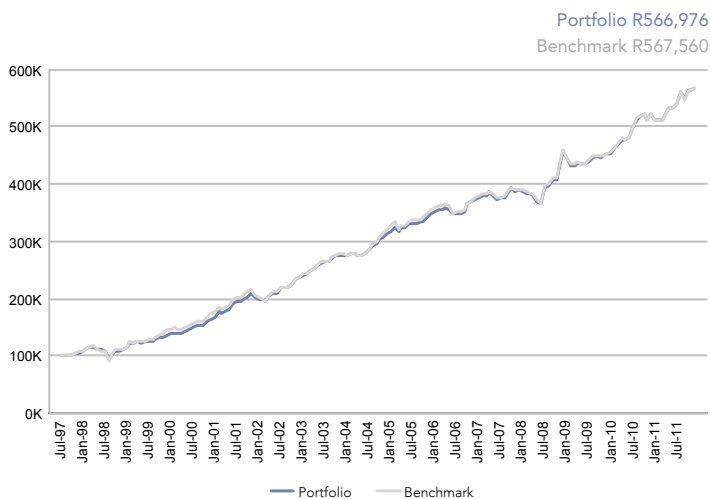
**Fund category** Domestic - Fixed Interest - Bond  
**Fund description** Seeks to provide investors with a well diversified exposure to the SA bond market.  
**Launch date** 01 August 1997  
**Portfolio manager/s** Mark le Roux

**Fund size** R269.42 million  
**NAV** 1382.85 cents  
**Benchmark** BEASSA ALBI Index  
**Risk profile**



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

### GROWTH OF A R100,000 INVESTMENT



### PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Launch (unannualised)	467.0%	467.6%	(0.6)%
Since Launch (annualised)	12.8%	12.8%	0.0%
Latest 10 years (annualised)	10.9%	10.8%	0.1%
Latest 5 years (annualised)	8.7%	8.6%	0.1%
Latest 3 years (annualised)	7.5%	7.4%	0.2%
Latest 1 year (annualised)	8.9%	8.8%	0.1%
Year to date	8.9%	8.8%	0.1%
2010	15.0%	15.0%	0.0%
2009	(0.6)%	(1.0)%	0.4%
2008	17.1%	17.0%	0.2%

### RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.7%	8.9%
Sharpe Ratio	0.28	0.24
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	74.0%	73.4%

### MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2011	(1.95)%	0.01%	0.47%	2.23%	1.51%	0.24%	1.25%	3.75%	(2.10)%	2.48%	0.08%	0.73%	8.90%
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)%

### FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee*	0.75%

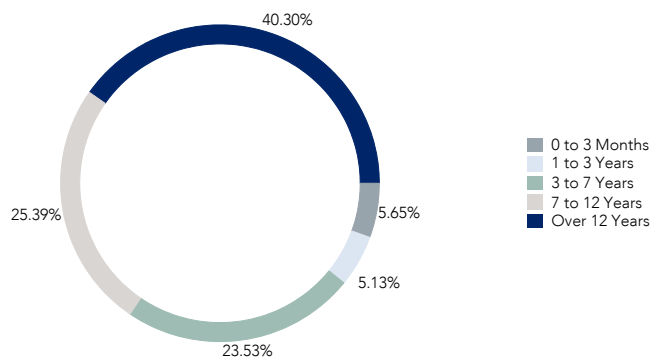
\* A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.

Total Expense Ratio (TER) <sup>2</sup>	0.88% per annum
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## PORTFOLIO DETAIL

### MATURITY PROFILE

As at 31 Dec 2011



### MATURITY PROFILE DETAIL

Sector	31 Dec 2011
0 to 3 Months	5.6%
1 to 3 Years	5.1%
3 to 7 Years	23.5%
7 to 12 Years	25.4%
Over 12 Years	40.3%

### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest
30 Sep 2011	03 Oct 2011	48.51	48.51
31 Mar 2011	01 Apr 2011	51.34	51.34
30 Sep 2010	01 Oct 2010	51.49	51.49
31 Mar 2010	01 Apr 2010	50.62	50.62

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 as calculated by Coronation as at 31 December 2011 for a lump sum investment using Class R 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 included as charges, levies and fees in the management of the portfolio for a rolling 12-month period to end September 2011. 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.