

## PORTFOLIO MANAGER COMMENTARY

The fund's 10-year anniversary was celebrated on 1 July 2011. Not only has this fund grown to become our flagship fixed interest product, but with an annual return of 11.5% p.a. since inception, this investment vehicle has got off to a good start, earning investors on average 2.5% p.a. ahead of cash over this 10-year period.

For the quarter, the fund returned 2.8% and for the past 12 months 10.1%. Much of this positive performance can be attributed to the renewed strength in inflation-linked bonds as real yields compressed lower, and ongoing good returns from the SA and offshore corporate bond markets, which saw spread tightening, translated into capital gains.

Ongoing concerns around a potential Greek default, or ultimate rollover of debt, have become the main pivot point for the "risk on –risk off" trade in global financial markets. The worry regarding a default is the potential contagion spreading across the region to those countries that are 'too big to fail and too big to bail' such as Spain. The political leaders in the EU appear to be willing to bail Greece out, but the Greek population seem vehemently opposed to the conditions (austerity measures) on which a bailout is based.

During the quarter, the 10-year US Treasury rallied to yield less than 3% on softer economic outcomes in the US as well as demand for safe haven investments which pushed the Treasury bond lower. Despite the fiscal woes of a number of European countries, the ECB raised interest rates by 0.5% in April to 1.25% for the first time in three years and again in July by a further 0.25%, following an announcement in the last week of June of its 'strong vigilance' with respect to inflationary pressures.

Local bonds took their cue from US Treasuries, rallying by around 30 basis points during the quarter to take the R186 government bond (maturing in 2026) and the R157 (maturing in 2015) to a yield to maturity of 8.50% and 7.51% respectively. Foreign investors have once again returned to the SA bond market, being the main drivers behind the rally. Foreign investors bought approximately R13 billion worth of SA government bonds in June alone. With the rand/dollar exchange rate relatively stable during the quarter at around R/\$6.80, and still no sign of US interest rate hikes, the carry trade (holding higher SA yields versus lower US yields) is still favoured by foreigners.

Local inflation data continued on its upward trend, with May CPI at 4.6%, now above the midpoint of the South African Reserve Bank's inflation target range. We expect that CPI will approach the upper end of the target range of 6% by the end of the year. With the repo rate currently at 5.50% and inflation heading for 6%, negative real short-term interest rates appear to be on the cards towards the end of the year. Against this backdrop, inflation-linked bonds (with real yields of between 2.50% to 3%) still appear to be an attractive alternative in the SA fixed interest space.

We have increased our preference share exposure in selected names that we believe offer good value relative to cash yields.

Property stocks delivered a better performance this quarter with prices rising in line with the stronger bond market. Yields on property stocks remain attractively priced at between 8% – 10%.

The fund's offshore component has edged higher during the quarter to around 6% as we believe the local currency to be unsustainably overvalued. We increased the fund's holdings in Standard Bank and Investec offshore bonds, both of which are attractively priced in US dollar and pound sterling. We also took profits on those corporate bonds which in our view have become relatively expensive.

The portfolio continues to be conservatively managed with the view of providing investors with a return which exceeds cash over time and without taking undue risk.

**Portfolio managers**

Mark le Roux and Tania Miglietta

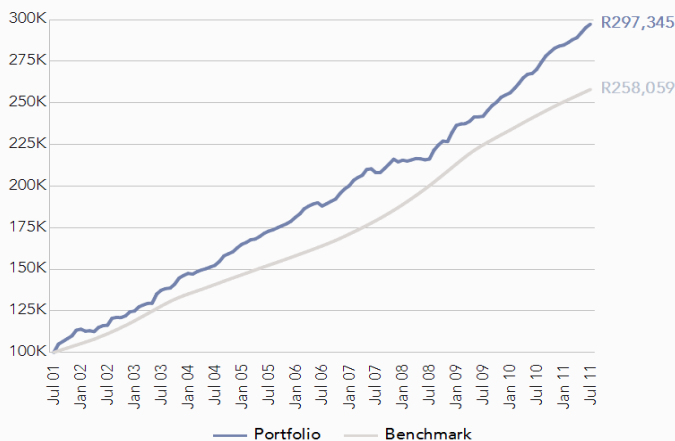
**Fund category** Domestic - Fixed Interest - Varied Specialist  
**Fund description** A widely diversified, actively managed fund that aims to provide a higher level of income than a pure income fund.  
**Launch date** 02 July 2001  
**Portfolio manager/s** Mark le Roux and Tania Miglietta

**Fund size** R 5.52 billion  
**NAV** 1364.13 cents  
**Benchmark** 110% of the STeFI 3-month Index  
**Risk profile**

Conservative 2/10

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

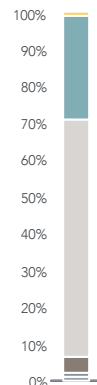
### GROWTH OF A R100,000 INVESTMENT



## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Jun 2011
<b>Domestic Assets</b>	<b>93.0%</b>
Cash	27.0%
Bonds	60.6%
Listed Property	3.9%
Preference Shares	1.5%
<b>International Assets</b>	<b>7.0%</b>



## PERFORMANCE AND MODIFIED DURATION

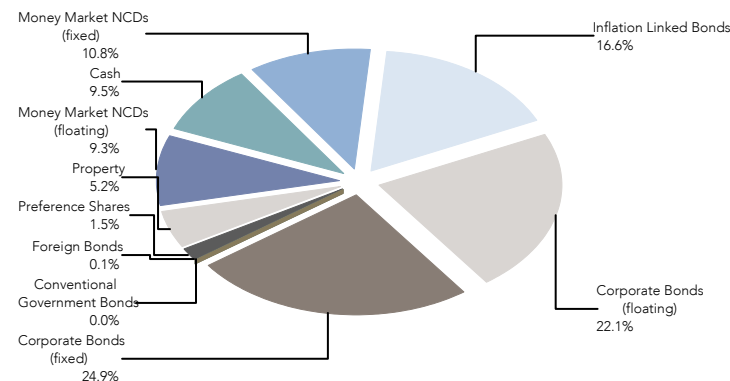
	Fund	Benchmark	Outperformance
Since Launch (unannualised)	197.3%	158.1%	39.3%
Since Launch (annualised)	11.5%	9.9%	1.6%
Latest 10 years (annualised)	11.5%	9.9%	1.6%
Latest 5 years (annualised)	9.6%	9.5%	0.1%
Latest 3 years (annualised)	11.2%	8.8%	2.4%
Latest 1 year (annualised)	10.1%	6.5%	3.6%
Year to date	4.4%	3.0%	1.4%
2010	11.2%	7.3%	4.0%
2009	8.2%	9.5%	(1.3)%
2008	9.7%	13.0%	(3.2)%

	Fund
Modified Duration	2.2
Modified Duration (ex Inflation Linkers)	1.5

## PORTFOLIO COMPOSITION

As at 30 Jun 2011



## RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	3.1%	0.7%
Sharpe Ratio	0.79	1.31
Maximum Gain	31.1%	158.1%
Maximum Drawdown	(1.3)%	N/A
Positive Months	90.8%	100.0%

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Jun 2011	01 Jul 2011	22.08	1.07	21.01
31 Mar 2011	01 Apr 2011	21.06	0.25	20.81
31 Dec 2010	03 Jan 2011	20.98	0.73	20.25
30 Sep 2010	01 Oct 2010	22.80	1.06	21.74

## MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2011	0.53%	0.59%	0.43%	1.04%	1.06%	0.68%							4.40%
Fund 2010	1.08%	1.09%	1.34%	0.80%	0.19%	0.90%	1.54%	1.40%	0.88%	0.83%	0.43%	0.22%	11.20%
Fund 2009	0.35%	0.06%	0.60%	1.08%	0.06%	0.12%	1.41%	1.24%	0.82%	1.17%	0.55%	0.50%	8.20%

## FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee*	0.85%

\* 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.  
 The annual management fee applicable to the A-class was reduced from 1.00% p.a. (excl. VAT) to 0.85% p.a. (excl. VAT) effective 1 October 2009.

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 30 June 2011 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 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.

Total Expense Ratio (TER) <sup>2</sup>	0.97% per annum
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Modified Duration measures the interest rate risk of a security. It measures the change in a security's price for a given fixed change in interest rates.

### 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.