

## PORTFOLIO MANAGER COMMENTARY

September proved to be a tough month for the local bond market, with foreign selling putting upward pressure on bond yields. During this period, the All Bond Index (ALBI) lost just over 2%, while inflation-linked bonds (ILBs) also came under pressure losing 1.2%. Cash outperformed during the month with a return of 0.47%. However, over the past 12 months bonds and cash performed in line with each other at 5.9%, while ILBs have been the star performer, producing a 9.2% return.

Figure 3 : Bond and Money Market (local currency returns)

Code	Name	September 2011	3 months	6 months	12 months	Year-to-date
JAPI05	All Bond	-2.09%	2.8%	6.8%	5.9%	5.1%
GOVI	GOVI	-1.96%	2.9%	6.8%	6.1%	5.3%
OTHI	OTHI	-2.78%	2.5%	7.1%	4.9%	4.5%
JAPI01	Bonds 1-3 Years	-0.27%	3.0%	5.3%	8.5%	6.6%
JAPI02	Bonds 3-7 Years	-1.02%	3.4%	6.7%	8.6%	6.7%
JAPI03	Bonds 7-12 Years	-2.05%	3.0%	7.2%	6.6%	5.7%
JAPI04	Bonds 12+ Years	-3.64%	1.9%	6.9%	2.0%	2.7%
GMC1	Cash	0.47%	1.4%	2.8%	5.9%	4.3%
BSAG	Barclays/ABSA Govt Inflation-Linked Bonds	-1.22%	3.0%	6.9%	9.2%	8.2%
J251	Preference Share Index	1.87%	1.2%	2.2%	1.1%	0.8%

Source: Deutsche Bank

During the past quarter, foreign interest in buying South African bonds reached fever pitch towards the end of August. Foreigners piled en masse into high yielding SA local currency bonds, mainly on the back of declining yields on long dated bonds in the developed world.

As at the end of August, on a year-to-date basis, foreigners had bought close to R50 billion worth of our bonds. The "carry" pickup of between 5% and 6% was very attractive indeed, but as with anything in the market, it doesn't come for free. The risk that they seemed to miss was the expectation that the rand would remain stable (and overvalued) into perpetuity. At its worst point in September, the rand sold off 15%. This sell-off effectively wiped out the carry yield pickup foreign investors were looking to earn on SA bonds and a fair deal more. Basically all the SA bonds bought in rands by foreigners this year are now sitting at a book loss. Foreign investors have responded by selling R14 billion worth of SA bonds during the latter part of September.

The implications for inflation are worrying should the rand's weaker tone be sustained. We have already been of the view that a breach of the 3% - 6% target range is likely by the fourth quarter of this year. The recent rand weakness will have some shorter-term impact (almost immediately through petrol and with a slightly longer lag through food), but most of the currency move should be reflected in next year's inflation data. Should the rand's current levels be sustained, and in the absence of any significant downward move in global commodity prices, the risk of a later and higher peak in CPI is very real. Clearly, currency moves are highly volatile and uncertain, but if the current level of the rand is sustained our CPI forecast would move from peaking just over 6% and a return to target in the first half of 2012, to one where the peak may be around, or over, 7% with no return to inside the target range in 2012 at all.

Such an outlook is exacerbated by stubborn cost-push pressures. In particular, lead indicators for food price inflation – which had earlier begun to indicate a peak in food inflation were in sight – have started turning up again. Maize prices on the South Africa Futures Exchange (Safex) are around all-time highs and at the time of writing, are up a startling amount on a year-on-year (y/y) basis (the number that matters for inflation) – white maize is up almost 80% y/y and yellow maize over 60% y/y. These are important for local CPI, both directly in grains and indirectly via animal feed. Given the usual lag Safex prices have to food inflation, this implies we will see high food inflation into at least the early part of next year, with the recent rand moves potentially prolonging this.

On the fiscal front, the headwinds are also starting to gather momentum. Revenue collection appears to be lagging and the deficit is likely to be wider than budgeted. All eyes will be on the Medium Term Budget Policy Statement towards the end of October for an update on the country's latest fiscal situation. Implications for the bond market are that supply/issuance of government bonds could increase to cover this shortfall.

### Outlook

In summary, we believe real returns from cash and bonds are likely to be relatively poor over the longer term in SA.

Short rates are likely to remain lower for longer, while inflation is likely to become problematic and, in SA, remain above the upper level of the target range into next year. Running shorter duration positions relative to benchmarks, combined with a liberal inflation-linked bond holding appears to be the way forward.

### Portfolio manager

Mark le Roux

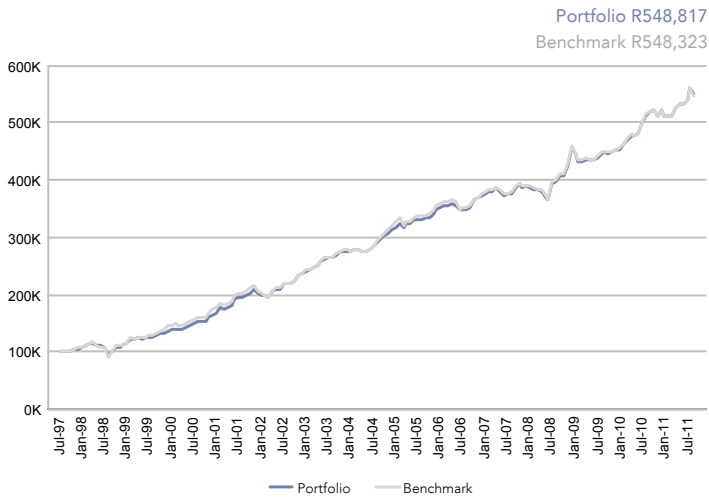
**Fund category** Domestic - Fixed Interest - Bond  
**Fund description** Seeks to provide investors with a well diversified exposure to the SA bond market.  
**Launch date** 01 August 1997  
**Portfolio manager/s** Mark le Roux

**Fund size** R251.74 million  
**NAV** 1387.01 cents  
**Benchmark** BEASSA ALBI Index  
**Risk profile**



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

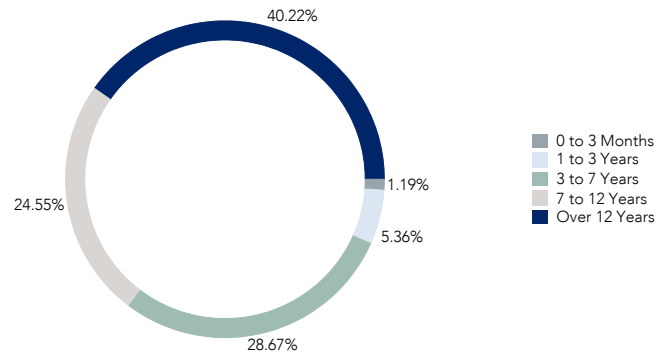
### GROWTH OF A R100,000 INVESTMENT



## PORTFOLIO DETAIL

### MATURITY PROFILE

As at 30 Sep 2011



## PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Launch (unannualised)	448.8%	448.3%	0.5%
Since Launch (annualised)	12.8%	12.8%	0.0%
Latest 10 years (annualised)	10.7%	10.2%	0.4%
Latest 5 years (annualised)	9.2%	9.0%	0.2%
Latest 3 years (annualised)	10.4%	10.0%	0.4%
Latest 1 year (annualised)	6.1%	5.9%	0.2%
Year to date	5.4%	5.1%	0.3%
2010	15.0%	15.0%	0.0%
2009	(0.6)%	(1.0)%	0.4%
2008	17.1%	17.0%	0.2%

## MATURITY PROFILE DETAIL

Sector	30 Sep 2011
0 to 3 Months	1.2%
1 to 3 Years	5.4%
3 to 7 Years	28.7%
7 to 12 Years	24.5%
Over 12 Years	40.2%

## RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.8%	9.0%
Sharpe Ratio	0.26	0.23
Maximum Gain	26.3%	26.4%
Maximum Drawdown	(19.0)%	(22.3)%
Positive Months	73.5%	72.9%

## 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

## 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)%				5.40%
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>	0.89% 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). <sup>1</sup>Performance as calculated by Coronation as at 30 September 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 incurred as charges, levies and fees in the management of the portfolio for a rolling 12-month period to end June 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.