

2005 will be remembered as the year that the rand remained relatively stable, a lower than expected inflation rate and the year in which interest rates ground lower. Lower volatility provided the undertone, with bonds trading for long periods of time in very narrow ranges. Higher levels of uncertainty leading to less trading activity and neutral positioning by fund managers tended to dampen the market. Foreign investors were evident in our market. They favoured local currency as opposed to foreign listed bonds showing their willingness to take on emerging market currency risk in their ongoing search for yield. As it turns out, emerging markets' bonds and equities were by far the best performing asset classes globally.

Although local bond yields have reached new record lows and the All Bond Index (ALBI) showed another year of gains, diminishing returns are setting in because of the base. While the ALBI returned 10.8% last year, this was in fact its weakest performance since 1998. Moreover, local bonds far underperformed a stellar equity market return of over 47% in 2005, although they did outperform cash of 7.1%. Most of the performance in the bond market took place in the last quarter. The fund's benchmark, the 1-3 year bond index, had only returned 4.9% by September, yet added another 2.8% in the last three months of the year.

The star performer for the year remained inflation-linked bonds, which delivered a 17.6% return - way outperforming cash and nominal bonds. These act as an inflation hedge for the fund and outperform when inflation rises unexpectedly. Inflation-linked bond real yields fell aggressively in 2005 mainly driven by an increasing number of products offering inflation protection. Such a structural shift pushed yields lower as these bonds are known to be illiquid and issued only at weekly auctions in relatively small volume.

The Coronation Income Fund returned 8.2% during 2005 and 2.1% for the last quarter of the year. This compares with 7.7% and 2.6% from the 1-3 year bond index benchmark respectively. The portfolio duration was increased in November when it became apparent that bonds would not sell off aggressively as inflation was likely to remain contained for longer. The Coronation Income Fund has held substantial holdings in both corporate and inflation-linked bonds all year, which has largely contributed to the fund's good performance. As at year end, preliminary figures showed that this was the only fund in its category to beat the benchmark.

The market has become very flush with cash which has put additional pressure on interest rates to fall. Finding attractive yields in this environment becomes increasingly difficult.

Looking forward, both global and domestic backdrops are likely to remain benign for bonds. Given our earlier point of "diminishing returns", we think that bond yields could be close to their lows, but even if they do fall further, this will be off an already low base and bonds will be hard pressed to match the returns seen in previous years.

Our strategy for the year includes identifying the remaining well-priced yield opportunities, being cognisant of the risks, and noting where South African interest rates have come from and how expensive many of these assets have become.

**Tania Miglietta**  
Portfolio Manager

Fund category	Domestic Fixed Interest Income
Launch date	3 April 2000
Portfolio manager	Tania Miglietta
Fund size	R128 million
NAV	1127.68 cents
Annual management fee	0.75% (ex VAT)

<b>Benchmark</b>	BEASSA ALBI (1 – 3 year) TR Index
<b>Fund description</b>	Aims to provide a high level of current income with moderate levels of capital growth. Stability of capital invested is of prime focus.

### ASSET ALLOCATION

Maturity Band	31 Dec 2005	30 Sep 2005
0 – 12 months	52.37%	60.41%
1 – 3 years	34.99%	21.05%
3 – 7 years	6.48%	9.03%
7 – 12 years	2.92%	6.48%
12+ years	3.24%	3.03%

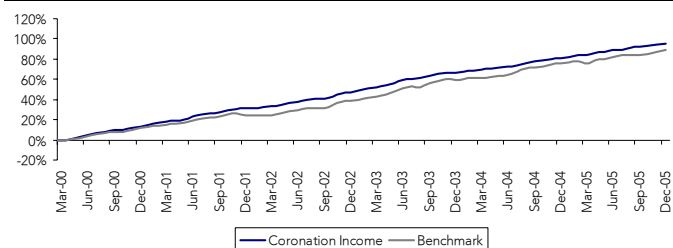
### PERFORMANCE & RISK STATISTICS

	Fund	Benchmark
Latest 12 months	8.16%	7.70%
Latest 36 months (annualised)	10.08%	10.92%
Latest 60 months (annualised)	11.61%	11.16%
Since inception (annualised)	12.41%	11.74%
Annual deviation since inception	1.93%	2.77%
Sharpe ratio	1.15	0.57
Maximum gain	95.93%	26.14%
Maximum drawdown	0.00%	-1.54%
Positive months	98.55%	88.41%

### ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	8.16%	7.70%	0.46%
2004	8.52%	10.17%	-1.64%
2003	13.64%	15.02%	-1.38%
2002	12.16%	11.50%	0.66%
2001	15.75%	11.56%	4.19%
2000	13.14%	11.54%	1.60%

### CUMULATIVE PERFORMANCE SINCE INCEPTION



### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest
31/12/2005	01/01/2006	24.61	24.61
30/09/2005	01/10/2005	22.16	22.16
30/06/2005	01/07/2005	33.05	33.05
31/03/2005	01/04/2005	20.44	20.44

### PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
Fund 2005	0.64%	0.67%	0.27%	0.93%	0.68%	0.90%	0.49%	0.57%	0.59%	0.52%	0.91%	0.70%	8.16%
B'mark 2005	0.34%	0.96%	-1.05%	1.69%	0.41%	1.25%	0.75%	0.31%	0.18%	0.24%	1.40%	0.99%	7.70%
Fund 2004	0.23%	0.57%	0.64%	0.48%	0.65%	0.72%	0.88%	1.22%	0.69%	0.64%	0.73%	0.76%	8.52%
B'mark 2004	0.17%	0.70%	0.48%	0.18%	0.59%	0.93%	1.52%	2.02%	0.62%	0.77%	0.85%	0.89%	10.17%