

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 set the tone, 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 over 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 of 2005. 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 Strategic Income Fund returned 9.9% during 2005 and 2.9% 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. We doubled the duration taking it to 1.67 years using longer-dated bonds which paid off, as bond performance picked up towards the end of the year mostly coming from the long end of the yield curve.

Other notable changes to the portfolio recently were the inclusion of the Allan Gray Property Trust which took the property exposure to 10.5%. Given the illiquidity of property stocks and the size of the Coronation Strategic Income Fund (R2.24 billion) we limit our holding to the property sector to 15%.

Preference shares during the year were still offering yields above those of money market interest rates but given the price appreciation of many of these shares, a number no longer offer the necessary yield pick-up that we seek for our investors and hence we started to sell them down.

The market has become very flush with cash which has put additional pressure on interest rates to fall. Finding attractive yields in this type of environment becomes increasingly difficult, although the benefit of the Coronation Strategic Income Fund mandate is that it allows ample flexibility to invest across different yield-bearing asset classes allowing for diversification of yield source.

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, remaining cognisant of the risks, noting where South African interest rates have come from and how expensive many of these assets have become.

Mark le Roux & Tania Miglietta

Fund category	Domestic Fixed Interest Varied Specialist
Launch date	2 July 2001
Portfolio manager	Mark le Roux & Tania Miglietta
Fund size	R2.2 billion
NAV	1254.17 cents
Annual management fee	1.00% (ex VAT)

Benchmark	BEASSA ALBI (1 - 3 year) TR Index
Fund description	A widely diversified, actively managed fund that aims to provide a higher level of income than a pure income fund.

ASSET ALLOCATION

Sector	31 Dec 2005	30 Sep 2005
Domestic Assets	100.00%	100.0%
Cash/Money Market	32.3%	49.4%
Bonds	49.5%	34.0%
Listed Property	10.5%	8.6%
Preference Shares	2.5%	2.9%
Other investments*	5.2%	5.1%
International Assets	0.00%	0.0%

* Makalani Holdings Ltd: High yielding, listed, mezzanine debt and BidBEE

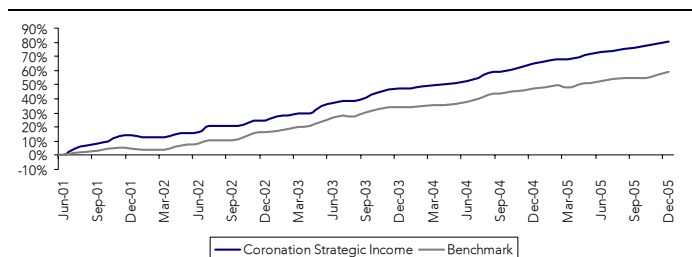
PERFORMANCE & RISK STATISTICS

	Fund	Benchmark
Latest 12 months	9.85%	7.70%
Latest 36 months (annualised)	13.22%	10.92%
Since inception (annualised)	14.13%	10.82%
Annual deviation since inception	3.75%	2.91%
Sharpe ratio	1.11	0.29
Maximum gain	23.25%	15.89%
Maximum drawdown	-1.05%	-1.54%
Positive months	92.59%	85.19%

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	9.85%	7.70%	2.16%
2004	11.88%	10.17%	1.71%
2003	18.09%	15.02%	3.07%
2002	9.58%	11.50%	-1.92%
2001	13.98%	4.34%	9.64%

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31/12/2005	01/01/2006	18.44	0.50	17.94
30/09/2005	01/10/2005	15.04	0.04	15.00
30/06/2005	01/07/2005	20.23	0.30	19.93
31/03/2005	01/04/2005	21.11	0.00	21.11

PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
Fund 2005	0.70%	0.92%	0.26%	0.88%	1.16%	0.76%	0.48%	0.73%	0.68%	0.65%	0.87%	1.35%	9.85%
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	-0.28%	0.97%	0.71%	0.51%	0.68%	0.65%	1.54%	2.18%	0.78%	0.77%	1.52%	1.27%	11.88%
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%