

Fixed interest market participants were once again taken by surprise this quarter at the South African Reserve Bank's announcement of a further 0.5% reduction in short-term interest rates (the repo rate) in April, taking it to a new low of 7%. With bank NCD rates at between 6.85% – 7.10%, SA short-term interest rates are at all time lows. The MPC left the repo rate unchanged in June.

SA bonds (ALBI) returned 5.29% for the second quarter after a series of volatile monthly returns: a strong June figure (2.69%) followed a poor figure in May (-0.12%), after a good April (2.06%). Recent strong performance was due to higher demand for local bonds (from foreigners) together with falling 10-year US Treasury yields. The US Treasury remained low, as inflation concerns from higher oil prices seem to be subsiding, and economic indicators are implying a slowing US economy going forward.

Corporate bonds have done well, returning 5.31% for the quarter. This was aided by spread compression, where the additional yield received over and above that available for an equivalent duration RSA bond, is reduced, due to re-pricing from high demand. The Coronation Income Fund has 23% in corporate bonds, holding those which we believe continue to offer us value. We believe that credit spreads in general are too tight and do not provide adequate compensation for the risk being taken in many cases.

The star performing interest rate assets for the month were inflation-linked bonds. The inflation-linked index returned 6.97% for the quarter, outperforming all other fixed interest asset classes. Strong demand with limited supply at the bond auctions has led to aggressive bidding for inflation-linked bonds. Their yields, expressed as a real yield, fell by more than 30 basis points on average, resulting in a healthy capital gain to investors. The Coronation Income Fund holds 10.6% in inflation-linked bonds and will have benefited from these moves.

The SA FRA (Forward Rate Agreement) curve, which gives us an idea of what the market in general expects of the repo rate has been persistently pricing in a 50% chance of a further 0.5% repo rate cut over the next few months despite a weaker currency this year. Historically it has tracked the rand/dollar closely but appears to have decoupled from this for now, as it is no longer pricing in a flat interest rate scenario for the medium term, which it would if it continued to follow the weaker exchange rate.

Domestic economic releases for May showed that on many fronts the domestic economy is still powering ahead. Inflation, both at the consumer (CPIX 3.9%) and producer (PPI 2.4%) level is rising (with PPI having surprised on the upside). M3 money supply and credit extended were very strong figures proving that both the consumer and corporates continue to borrow and spend. Most analysts for the first time are conceding that there is a diminishing chance of further interest rate easing given these numbers.

Our short duration strategy still holds. We believe that bonds remain overvalued at these levels and that we will see better buying opportunities over the next few months (although these may be kept lower by foreign investor appetite).

The Coronation Income Fund continues to be conservatively managed. We are pleased to have delivered a 2.53% return for the quarter and 4.16% year to date, beating the 0 - 3 year bond index (3.63%), for the year to date. A survey compiled by Prescient Securities shows that we are the number one ranked income fund year to date.

**Tania Miglietta**  
Portfolio Manager

Fund category	Domestic Fixed Interest Income
Launch date	3 April 2000
Portfolio manager	Tania Miglietta
Fund size	R133.17 million
NAV	1140.65 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	30 Jun 2005	31 Mar 2005
0 – 12 months	72.58%	71.58%
1 – 3 years	13.18%	6.91%
3 – 7 years	4.92%	13.97%
7 – 12 years	6.38%	4.84%
12+ years	2.94%	2.70%

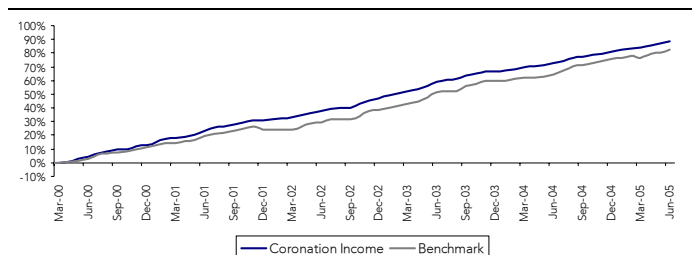
### PERFORMANCE & RISK STATISTICS

	Fund	Benchmark
Year to date	4.16%	3.63%
Latest 12 months	9.39%	10.74%
Latest 36 months (annualised)	11.12%	12.06%
Latest 60 months (annualised)	12.52%	12.03%
Since inception (annualised)	12.85%	12.11%
Annual deviation since inception	1.98%	2.84%
Sharpe ratio	1.21	0.59
Maximum gain	88.68%	26.14%
Maximum drawdown	0.00%	-1.54%
Positive months	98.41%	87.30%

### ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
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
30/06/2005	01/07/2005	33.05	33.05
31/03/2005	01/04/2005	20.44	20.44
31/12/2004	01/01/2005	25.18	25.18
30/09/2004	01/10/2004	24.75	24.75

### MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2005	0.64%	0.67%	0.27%	0.93%	0.68%	0.90%						
B'mark 2005	0.34%	0.96%	-1.05%	1.69%	0.41%	1.25%						
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%
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%