

Fixed interest market participants were once again taken by surprise this quarter at the South African Reserve Bank's (SARB) announcement of a further 0.5% repo rate reduction in April, taking it to a new low of 7%. The MPC left the repo rate unchanged in June, in line with market expectations.

SA bonds (ALBI) returned 5.29% for the second quarter. Recent better performance was due to high 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 performed 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, falls, due to re-pricing from high demand. This results in a capital gain. The Coronation Strategic Income Fund has 23% exposure in corporate bonds, holding those which still offer value. We believe that credit spreads in general are now 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 Strategic Income Fund holds 7.05% in inflation-linked bonds and will have benefited from these moves.

Domestic listed property performed very strongly over the quarter, with the index returning 11.7%. This performance was driven by a stronger bond market and continued good distribution growth from the listed companies. The quarter end exposure in the fund to domestic listed property was 3.68%. Given the strong run in share prices over the past quarter, we believe that some of the counters have reached and even exceeded our fair values. We expect that strong distribution growth will continue, but is now factored into many of the share prices. While we are forecasting that current excellent growth in property distribution will continue for the next three years, we do think that it would be incorrect to extrapolate this growth rate into perpetuity. We are currently in a very positive earnings cycle buoyed by strong consumer spending and economic fundamentals.

We introduced Makalani, a mezzanine finance provider as an alternative to cash and bonds, where returns below 7% remain unattractive. This investment is expected to yield in excess of 10% going forward.

Liberty International produced a good return over the quarter, and we have tactically reduced this holding on the back of a strong run in price. While this counter has underperformed domestic listed property in the year to date, we continue to believe that the diversification benefits added to the fund are meaningful.

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 Strategic Income Fund continues to be conservatively managed, returning 2.83% for the quarter and 4.77% year to date, beating the 0 - 3 year bond index (3.63%), for the year to date.

Edwin Schultz & Tania Miglietta
Portfolio Managers

Fund category	Domestic Fixed Interest Varied Specialist
Launch date	2 July 2001
Portfolio manager	Edwin Schultz & Tania Miglietta
Fund size	R1.67 billion
NAV	1231.17 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	30 Jun 2005	31 Mar 2005
Domestic Assets	100.00%	100.00%
Cash/Money Market	71.2%	62.7%
Bonds	19.8%	29.5%
Listed Property	5.5%	5.3%
Preference Shares	1.8%	2.6%
Other high yielding investments*	1.7%	0.0%
International Assets	0.00%	0.00%

* Makalani Holdings Limited: High yielding, listed, mezzanine debt

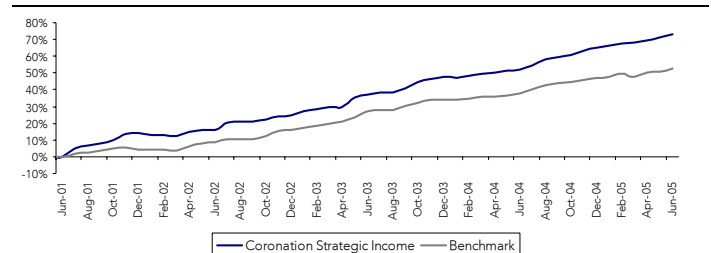
PERFORMANCE & RISK STATISTICS

	Fund	Benchmark
Year to date	4.77%	3.63%
Latest 12 months	13.50%	10.74%
Latest 36 months (annualised)	14.11%	12.06%
Since inception (annualised)	14.67%	11.18%
Annual deviation since inception	3.95%	3.03%
Sharpe ratio	1.11	0.28
Maximum gain	21.97%	15.89%
Maximum drawdown	-1.05%	-1.54%
Positive months	91.67%	83.33%

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
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
30/06/2005	01/07/2005	20.23	0.30	19.93
31/03/2005	01/04/2005	21.11	0.00	21.11
31/12/2004	01/01/2005	19.97	0.00	19.97
30/09/2004	01/10/2004	24.23	0.52	23.71

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2005	0.70%	0.92%	0.26%	0.88%	1.16%	0.76%						
B'mark 2005	0.34%	0.96%	-1.05%	1.69%	0.41%	1.25%						
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%
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%