

The bond market started the quarter on a bullish note based on benign inflation expectations and investors expecting further repo rate reductions from the South African Reserve Bank. We saw a bond sell off during the quarter which resulted in disappointing bond market performance. The Coronation Income Fund's benchmark, the 1 – 3 year index, returned 1.23% and the All Bond Index 1.10% for the quarter. The R153, a five-year bond, ended the quarter higher at 7.86% after rallying to lows of 7.36%.

Bonds reversed their gains in response to the higher oil prices seen in late August which were exacerbated by devastating Hurricane Katrina which damaged US oil supplies and refineries. Despite a strong rand, the effect of a higher dollar oil price to our economy became apparent and inflation expectations rose. Short-term interest rate sentiment had by quarter-end turned more bearish in response to this. The market is now pricing in a June 2006 repo rate hike for the first time.

Inflation-linked bonds continued to perform well, returning 4.79% for the quarter. Our 11.01% holding contributed to the fund's strong performance.

Although the corporate credit market continued to perform well, the phenomenal demand for these instruments seems to be slowing. The credit spread compression, where the additional yield received over and above that available for an equivalent duration RSA bond, has been slower than the previous quarter, resulting in lower capital gains.

The Coronation Income Fund took the opportunity to reduce its exposure to corporate bonds, to 5.2%. We continue to believe that credit spreads in general are now too tight and do not provide adequate compensation for the risk being taken in many cases. During the quarter the fund purchased the Liberty bond. Subsequent to its inclusion, the Liberty bond has had capital gain with the 10 basis point credit spread compression. We continue to monitor the credit quality of the portfolio and adjust our exposures accordingly.

Twelve-month money market rates headed higher this quarter and are now yielding 7.30%. The two-year money market rate is now pricing in a 1% repo rate hike.

Domestic macroeconomic data for August (released in September) showed that inflation is rising. Inflation at the consumer (CPIX 4.8%) and producer (PPI 4.2%) levels were largely in line with expectations but higher than we have seen in recent months. Most analysts for the first time are conceding that there is no longer a chance of further interest rate easing given these numbers and that indeed the first repo rate hikes are visible on the horizon.

Our short duration bond strategy combined with a healthy exposure to corporate and inflation-linked bonds has been the winning formula so far this year. The Coronation Income Fund's relative ranking has soared with recent figures placing it at number 1 year to date and number 2 for the quarter and last six months. The latest performance data are reflected in the table below.

	Last quarter	Year to date	1 year	2 years
<b>Coronation Income Fund</b>	<b>1.66%</b>	<b>5.89%</b>	<b>8.16%</b>	<b>8.38%</b>
Cash Index returns	1.71%	5.34%	7.31%	7.79%
1 – 3 year bond index	1.23%	4.91%	7.57%	8.81%
Outperformance over index	0.43%	0.97%	0.59%	

Bonds remain overvalued, but with the sell-off seen recently the market is approaching fair value. We remain short duration until such time as they become cheaper. We will then start to buy them back selectively.

We are pleased to have delivered a 1.66% return for the quarter and 8.16% year to date, beating the 0 - 3 year bond index over both measurement periods.

**Tania Miglietta**  
Portfolio Manager

Fund category	Domestic Fixed Interest Income
Launch date	3 April 2000
Portfolio manager	Tania Miglietta
Fund size	R132.2 million
NAV	1126.08 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 Sep 2005	30 Jun 2005
0 – 12 months	60.41%	72.58%
1 – 3 years	21.05%	13.18%
3 – 7 years	9.03%	4.92%
7 – 12 years	6.48%	6.38%
12+ years	3.03%	2.94%

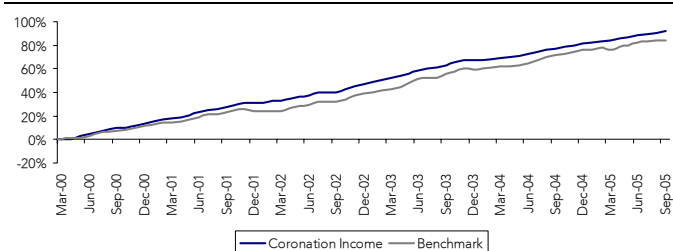
## PERFORMANCE & RISK STATISTICS

	Fund	Benchmark
Latest 12 months	8.16%	7.57%
Latest 36 months (annualised)	10.95%	11.89%
Latest 60 months (annualised)	11.85%	11.35%
Since inception (annualised)	12.57%	11.77%
Annual deviation since inception	1.96%	2.81%
Sharpe ratio	1.15	0.53
Maximum gain	91.81%	26.14%
Maximum drawdown	0.00%	-1.54%
Positive months	98.48%	87.88%

## 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
30/09/2005	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
31/12/2004	01/01/2005	25.18	25.18

## 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%				5.89%
B'mark 2005	0.34%	0.96%	-1.05%	1.69%	0.41%	1.25%	0.75%	0.31%	0.18%				4.91%
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%