

Cash has outperformed bonds so far this year as bonds extended their losses into the second quarter. The All-Bond Index (ALBI) was down 3.6% for the period, taking its year-to-date loss to just over 2%. While cash was up 1.8% in the quarter (3.6% year-to-date) and inflation-linked bonds up 0.6% for the quarter (3.3% year-to-date).

The sell off in the bond market was led by a number of factors, principally the reduction in risk appetite for emerging market assets that we had expected would eventuate sometime this year. The trigger point seemed to be the US Federal Reserve raising interest rates beyond where many had expected, coupled with expectations of further monetary tightening by both the European Central Bank and the Bank of Japan. Rising interest rates both reduce general liquidity available in the market – usually meaning a fall in risk appetite – and also raise the relative return required by other assets if they are to continue to remain attractive.

Local bonds were affected by a general sell off in emerging market debt, but seemingly more so by the fall in the rand that accompanied lower risk appetite. At the time of writing, the trade-weighted rand has lost some 18% since late April. The cherry on top for the bond market was the SA Reserve Bank's move to raise the repo rate by 50 basis points to 7.5% at the June Monetary Policy Committee meeting. While the FRA market had discounted some probability of a rate rise, it seemed that the fixed interest market was to a large extent caught unawares by the move. A worse than expected current account deficit for the first quarter subsequently sent jitters through the market, opening the possibility of further rises of the SA repo rate. We have for some time expected that interest rates would enter an upcycle this year and thus were positioned for the market moves. At present we expect the SARB to raise interest rates another 100 basis points by February 2007.

An interesting development in the domestic market was a change in sentiment towards credit, where the previous "buy at any price" attitude towards new corporate credit received a shock when buyers weren't as prevalent as before. We have for some time believed that credit pricing did not justify the risks and that it made sense to hold only fairly-priced high-quality issuer names. Investors will recall that for the Coronation Money Market Fund we only invest in assets assigned either an F1+ or F1 rating, the two highest ratings.

The portfolio has held a high proportion in floating rate investments which provides a buffer against rising interest rates as the underlying yield resets with a change in the Johannesburg Interbank Average Rate (JIBAR) or prime rates which in turn follows the repo rate closely. Thus the fund's yield automatically adjusts upwards if underlying interest rates in the market rise.

While we had been defensively positioned in the run-up to the repo rate hike, we feel that the money market is now starting to offer value in areas which fully price in our interest rate expectations over the next 12 months.

Tania Miglietta
Portfolio Manager

Fund category	Domestic Fixed Interest Money Market
Launch date	1 October 1999
Portfolio manager	Tania Miglietta
Fund size	R1.3 billion
NAV	100.00 cents
Annual management fee	0.30% (ex VAT)
Initial fee	0.00%

Benchmark	Alexander Forbes 3-month (STeFI) Index
Fund description	To outperform fixed deposits and call accounts, while ensuring capital preservation, stability and liquidity.

ASSET ALLOCATION

Maturity Band	30 Jun 2006
0 – 3 months	79.55%
4 – 6 months	3.45%
7 – 9 months	10.78%
10 – 12 months	6.22%

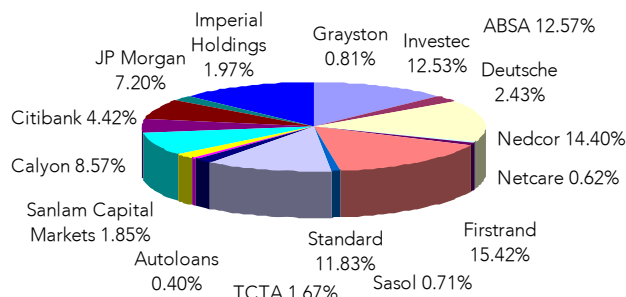
PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	3.37%	3.41%
Latest 12 months	6.88%	6.92%
Latest 36 months (annualised)	7.91%	7.86%
Latest 60 months (annualised)	9.33%	9.42%
Since inception (annualised)	9.67%	9.76%
Annual deviation since inception	0.57%	0.62%
Sharpe ratio	-0.80	-0.58
Maximum gain	86.49%	91.35%
Maximum drawdown	0.00%	0.00%
Positive months	100.00%	100.00%

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	7.05%	7.04%	0.01%
2004	7.87%	7.78%	0.09%
2003	11.96%	12.27%	-0.31%
2002	11.36%	11.77%	-0.41%
2001	10.36%	10.05%	0.31%
2000	10.58%	10.55%	0.03%
1999	2.68%	2.98%	-0.30%

CREDIT EXPOSURE



YIELDS FOR THE LAST FOUR PERIODS

Declaration	Payment	Yield
30/06/2006	01/07/2006	7.01
31/05/2006	01/06/2006	6.83
30/04/2006	01/05/2006	6.86
31/03/2006	01/04/2006	6.76

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2006	0.58%	0.51%	0.56%	0.51%	0.60%	0.56%						
B'mark 2006	0.58%	0.52%	0.57%	0.56%	0.58%	0.56%						
Fund 2005	0.61%	0.56%	0.60%	0.55%	0.60%	0.56%	0.53%	0.62%	0.55%	0.58%	0.53%	0.54%
B'mark 2005	0.61%	0.55%	0.61%	0.59%	0.58%	0.55%	0.56%	0.57%	0.55%	0.57%	0.55%	0.56%