CORONATION STRATEGIC INCOME FUND

as at 31 March 2006

The Coronation Strategic Income Fund has had a very good start to the year with the fund returning 3.7% for the first quarter versus the benchmark return of 1.8%.

In a relatively rare turn of events, the SA bond market produced a negative return in March. The All Bond Index (ALBI) fell by 0.23% over the month, although shorter-dated bonds did produce small positive returns. Over the first quarter, bonds still produced a positive return of 1.5%. Again, the shorter area was the place to be: the 1 - 3 and 3 - 7 year areas each returned 1.8%, but longer bonds produced less.

The ALBI was the worst performer in both March and in the first quarter, being beaten even by cash (+1.7%) and, as has become commonplace, by inflation-linked bonds (+2.7%). All fixed interest categories were roundly trounced by equities, with the All Share Index rising 7.1% in March to take its first quarter return to 13.3%.

It certainly was not as though any great problem beset South Africa in particular; on the contrary, the bond market took heart from a continued relatively strong rand and contained inflation. Rather, we saw bonds weaken as a spillover from jitters in global markets – something that we have been highlighting as a potential risk for a while.

It seems that March marks the lower turning point in global bond yields too. Indeed, since then, bond yields in developed countries have generally risen to levels that are around two-year highs (though in absolute, historical terms they remain relatively low). To some extent this represented the Federal Reserve pulling US bonds kicking and screaming upwards, as it continued a steady upward move in the Fed funds rate (now at 4.75%, well above what consensus had expected a year ago).

In Europe official interest rates are on the rise – with more expected to come over the course of this year. But most interesting has probably been the confirmation of a structural change in Japan: the "end of deflation" has been proclaimed, the Bank of Japan has started to withdraw "quantitative easing" and is expected to actually raise rates sometime during the second half of the year.

Despite all this, emerging markets continued to perform well. The current line of thinking seems to be that despite the gradual withdrawal of liquidity, global growth remains robust and so emerging markets – most of which export commodities or are otherwise geared to the global growth cycle – will continue to perform well.

While accepting that this is a valid argument, we also remain somewhat cautious. South Africa will continue to do well as long as the general emerging market universe is in favour, but we note that some jitters have set in with some emerging markets (Iceland, Hungary) and some developed commodity exporters (New Zealand) finding their currencies under pressure. The rand did not escape a bout of the jitters, though at the time of writing it has retraced its losses. We remain concerned that falling global risk appetite will see currency weakening of countries that are running large current account deficits and in turn potentially place upward pressure on inflation and interest rates; South Africa would fall into this grouping.

Of course, local developments are also important in determining a final value for bond yields: while global bond market movements are likely to be a primary determinant of trend, local issues will affect South African bond spreads versus other countries. Inflation, while expected to drift up further from its trough, is not expected to provide any major scares (unless there is a sharp move downwards in the rand). However, other local developments support at best an unchanged repo rate, with risks that the next move is up – a point of view now publicly espoused by Governor Mboweni. The main concern from a monetary policy perspective at present is the booming domestic economy; while higher growth is good, the extent of what we are seeing appears to be stretching the economy's capacity. Such imbalances show up in the ever-widening current account deficit; if left unchecked to grow indefinitely, this will eventually become unsustainable with a potentially messy rand (and inflation) outcome as a result.

We would expect the upward drift in bond yields to continue this year. During the quarter we trimmed down the fund's bond position, mostly from the 7 – 12 year area of the curve, reducing the overall interest rate risk of the fund and added to the property holding, noting that some value remained in certain property stocks. This decision has paid off well, as much of the good performance of the quarter can be attributed to the property asset class.

Inflation-linked bonds, which remain a core holding in the fund, also contributed positively to the quarter's performance, with real yields having rallied again on the back of very aggressive demand.

Mark le Roux & Tania Miglietta
Portfolio Managers

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CORONATION STRATEGIC INCOME FUND
as at 31 March 2006

Fund category	Domestic Fixed Interest Varied Specialist	Benchmark	BEASSA ALBI (1 - 3 year) TR Index
Launch date	2 July 2001	Fund description	A widely diversified, actively managed fund that aims to provide a higher level of income than a pure income fund.
Portfolio manager	Mark le Roux & Tania Miglietta		
Fund size	R2.5 billion		
NAV	1281.23 cents		
Annual management fee	1.00% (ex VAT)		

ASSET ALLOCATION

Sector	31 Mar 2006
Domestic Assets	100.0%
Cash/Money Market	43.2%
Bonds	35.4%
Listed Property	12.5%
Preference Shares	3.3%
Other investments*	5.6%
International Assets	0.0%

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

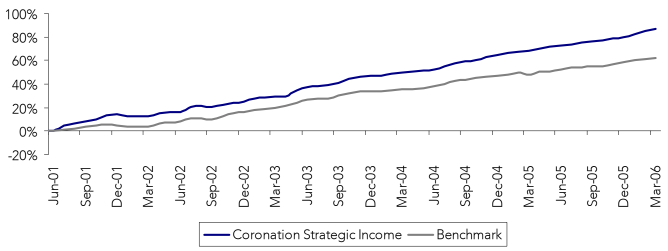
PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Latest 12 months	11.80%	9.41%
Latest 36 months (annualised)	13.23%	10.51%
Since inception (annualised)	14.21%	10.64%
Annual deviation since inception	3.66%	2.84%
Sharpe ratio	1.18	0.27
Maximum gain	27.80%	15.89%
Maximum drawdown	-1.05%	-1.54%
Positive months	92.98%	85.96%

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
31/03/2006	01/04/2006	21.54	2.57	18.97
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

PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
Fund 2006	1.17%	1.61%	0.87%										3.69%
B'mark 2006	0.74%	0.74%	0.35%										1.84%
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%

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