

The Coronation Income Fund achieved a return of 1.91% for the first quarter, compared to its benchmark of 2.17%. The fund yielded 9.23% at quarter end.

We enjoyed a bullish start to the year with the R157 (2015 RSA bond) opening with a yield to maturity of 7.73% and trading to a low of 7.5% by late February. This was driven by the dovish stance taken at the February MPC where the committee's decision was to leave the repo rate unchanged at 9%. By then the inflation outlook had improved, the committee highlighted that credit extension although still high, had become more corporate driven.

It therefore meant that consumer borrowing was not as rife as previously recorded and since corporate borrowing is healthier for the economy than is consumer borrowing (since more investment and development is taking place). This and other important factors gave the SARB reason to leave interest rates unchanged.

Around six weeks later, the landscape started to change however, with higher oil prices, a weaker rand and later, higher maize prices creeping in. These all pose greater risks to future inflation. None of these prices have yet subsided, and effective early April, a large petrol price hike of around 68c per litre was imposed. So the risks to higher inflation remain.

In response to the changed landscape, although with a bit of a delay, the bond market sold off giving back most of its gains. The R157 closed the quarter just higher than its opening level at a yield to maturity of 7.82%. The All Bond Index (ALBI) returned 1.6% during the quarter, which is less than cash achieved (2.04%). Within the bond sectors, the 1-3 year index was the best performer for the quarter (+2.1%) and the 12+ year index, the worst performer (-1.07%). Inflation linked bonds only returned 1% during this time. The 12-month return from bonds at 5.6% has still been dismal compared to cash at 7.8%.

On that note, money market yields have been more volatile than usual, mostly in response to the weaker rand and the other inflation risks. The FRA curve, which acts as the market barometer for short-term interest rate expectations, is now pricing in around a 35% - 45% chance of another repo rate hike either in April or June. One-year money market yields are as high as 9.70%, up from previous weeks. The large SA banks seeking more funding to provide for their ever growing loan book are increasingly willing to pay up for long-term deposits. 18-month and 2-year money market interest rates are now paying 9.60% pa. This is certainly a better return (and lower risk) than expected bond returns for the next year.

The Income Fund has remained at around benchmark duration, of 1.5 years, with recent downscaling to 1.36 years given our concerns over inflation. The fund is composed of 61% money market investments earning between 9.2%-9.7%, a zero exposure to government bonds as at quarter end and a close to maximum corporate bond holding of 39%.

During the quarter a number of new corporate bonds and securitisations were brought to market. In most cases, the pricing was not attractive enough for the risks assumed and so we did not participate. However, we did introduce the AB07 (ABSA, 2014 maturity) into the fund as this AAA-rated bond was listed at a yield to maturity as high as 1.2% over the equivalent RSA bond. Such spreads on good quality bonds have not been around for more than a year now.

We note that the corporate bond market has become more of a buyer's market, as issuance has increased dramatically (as companies and banks seek cheap funding). Supply now exceeds demand and the pricing reflects this. Credit spreads on many of the corporate bonds, especially the longer dated bank bonds, have widened substantially since issue. Eg Nedbank 2018 was issued at 0.64% over the R201 and is now trading at 1.22% resulting in some capital loss to the investor. We were not invested in longer dated corporate bonds.

Tania Miglietta
Portfolio Manager

Fund category	Domestic Fixed Interest Income
Launch date	3 April 2000
Portfolio manager	Tania Miglietta
Fund size	R134.1 million
NAV	1101.9 cents
Annual management fee	0.86% (incl VAT)
Initial fee	0.00%

Benchmark	BEASSA ALBI (1 – 3 year) TR Index
Fund description	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	31 Mar 2007
0 – 12 months	32.36%
1 – 3 years	50.12%
3 – 7 years	17.52%
7 – 12 years	0.00%
12+ years	0.00%

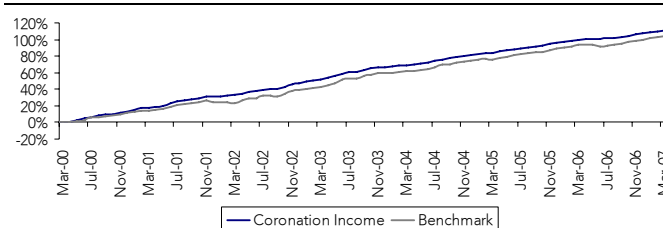
PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	1.91%	2.17%
Latest 12 months	6.15%	5.99%
Latest 36 months (annualised)	7.69%	8.10%
Latest 60 months (annualised)	9.70%	10.54%
Since inception (annualised)	11.30%	10.75%
Annual deviation since inception	1.91%	2.67%
Sharpe ratio	0.76	0.34
Maximum gain	101.41%	26.14%
Maximum drawdown	-0.25%	-1.54%
Positive months	96.43%	89.29%

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2006	5.93%	5.65%	0.28%
2005	8.16%	7.70%	0.46%
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
31/03/2007	01/04/2007	22.27	22.27
31/12/2006	01/01/2007	32.10	32.10
30/09/2006	01/10/2006	17.91	17.91
30/06/2006	01/07/2006	17.67	17.67

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2007	0.66%	0.82%	0.42%									
B'mark 2007	0.79%	1.05%	0.32%									
Fund 2006	0.56%	0.60%	0.53%	0.60%	0.48%	-0.25%	0.60%	-0.13%	0.61%	0.83%	0.71%	0.64%
B'mark 2006	0.74%	0.74%	0.35%	0.73%	0.09%	-1.09%	0.60%	0.38%	0.66%	1.02%	0.42%	0.89%