

The Coronation Strategic Income Fund achieved a return of 3.18% for the first quarter, compared to its benchmark of 2.17%.

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 7.81%.

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 Strategic Income Fund has remained conservatively positioned with an overweight cash position (earning the yields mentioned above), a very low exposure to government bonds and a moderate corporate bond holding.

During the quarter a number of new corporate bonds and securitisations were brought to market. In most cases, we felt that the pricing wasn't attractive enough for the risks assumed and so did not participate. However, we did introduce the AB07 (ABSA, 2014 maturity) into the fund as this AAA-rated bond was issued at a yield to maturity as high as 1.2% over the equivalent RSA bond. We also participated in the ACSA bond (Airports Company of SA, 2019 maturity) at an attractive spread. 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 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.

Preference shares had a nasty month in February, with prices falling sharply on the back of the announcement that STC (secondary tax on companies) would be phased out and replaced with a tax on dividends. There was much uncertainty about the impact this would have on preference shares, which are largely held for their high tax exempt dividend yield. Issuers were quick to confirm however, that all tax benefits received by the issuer would be passed on in full to the investor, thereby having a neutral effect. Our view is that at these price lows, with preference shares yielding between 9.3% - 10.7%, this presents a very attractive buying opportunity. We have upped our weighting in preference shares, which will reflect in the portfolio in April, on settlement.

The fund's property holdings have delivered good returns for investors this quarter however we have been trimming back on selected holdings, reducing risk where prices have approached fair value. Yields have fallen in this sector as a result of higher prices, and where the expected 3-year return is still attractive, we continue to hold the stock.

The fund continues to produce pleasing returns, largely gained from the fixed interest sectors which traditional bond and income funds do not participate in, thereby confirming that a more flexible approach to fixed interest money management pays better dividends (and interest!) over time.

Mark le Roux and Tania Miglietta
Portfolio Managers

Fund category	Domestic Fixed Interest Varied Specialist
Launch date	2 July 2001
Portfolio manager	Mark le Roux and Tania Miglietta
Fund size	R4.1 billion
NAV	1322.52 cents
Annual management fee	1.14% (incl 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	31 Mar 2007
Domestic Assets	100.0%
Cash/Money Market	61.1%
Bonds	23.8%
Listed Property	7.4%
Preference Shares	3.1%
Other investments*	4.6%
International Assets	0.0%

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

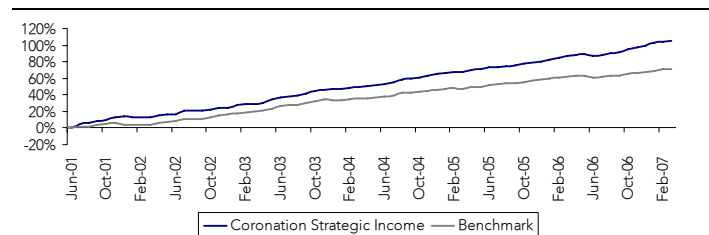
PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	3.18%	2.17%
Latest 12 months	9.85%	5.99%
Latest 36 months (annualised)	11.35%	8.10%
Latest 60 months (annualised)	12.91%	10.54%
Since inception (annualised)	13.44%	9.82%
Annual deviation since inception	3.50%	2.74%
Sharpe ratio	1.09	0.07
Maximum gain	29.19%	15.89%
Maximum drawdown	-1.05%	-1.54%
Positive months	92.75%	86.96%

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2006	10.40%	5.65%	4.75%
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
31/03/2007	01/04/2007	21.66	0.30	21.36
31/12/2006	01/01/2007	21.56	1.00	20.56
30/09/2006	01/10/2006	20.18	-	20.18
30/06/2006	01/07/2006	16.06	0.21	15.85

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2007	1.69%	0.79%	0.67%									
B'mark 2007	0.79%	1.05%	0.32%									
Fund 2006	1.17%	1.61%	0.87%	0.66%	0.42%	-1.05%	0.73%	0.78%	0.70%	1.78%	1.33%	0.96%
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%