

There has been much turmoil in international money markets in the last few months. Worryingly, large banks and brokers have been under severe liquidity stress. Northern Rock – a UK mortgage lender went into liquidation and Bear Stearns – a well established large US broker was bailed out by JP Morgan. Both were casualties of the sub-prime fallout and the global credit crunch.

In this instance, SA banks are not exposed to the same credit woes as their international counterparts, largely because SA banks do not hold CDOs which were originated out of the sub-prime mortgage sector. However, SA banks are feeling the squeeze that higher domestic interest rates are putting on economic conditions and consumer demand. In recent months banks have been lending more to corporates than to the man in the street, but these loans still need to be funded. Liquidity is drying up – which is what happens when interest rates rise – and so the banking environment is getting tougher.

Money market rates are holding up in a market where ongoing repo rate hikes are still on the cards according to some economists. 3-month NCDs are at 11.30% and 12-month NCDs are at 12.20% - both very attractive yields. FRAs – which give investors a good idea of what the market is expecting for short term interest rates, are pricing in an 80% chance of another interest rate hike in April 2008. We are of the view that there is no need to further hike the repo rate as the past eight interest rate hikes are already working well. The fund has been accumulating money market investments at these very attractive yields for some time and we have been increasing duration to just over 80 days.

Looking forward, our analysis shows that we are very close to the peak in inflation, and hence in interest rates. Investors are reminded that inflation is a measure of rate of growth of prices, which means that existing high prices does not translate into ever higher inflation. Food prices appear to be topping out (the supply response domestically has been significant) although these are not yet falling. Oil remains an enigma and prices are likely to remain high as long as geopolitical tensions persist in the Middle East. However, electricity price increases are the real wildcard. If the regulator grants the latest increase requested by Eskom, we could see the inflation rate peaking in double digits to around 10.50% by July of this year. Evidence in the real economy suggests that a slowdown is underway. Retail sales and vehicle sales are coming under severe pressure and are expected to continue downwards as monetary policy changes take 12 to 18 months to have a full effect. The last four interest rate hikes in 2007 have yet to fully filter through and already the excessive consumer demand in the economy has shown signs of abating. It is acknowledged that the inflation target is currently in breach, but this is due to contributors which are not interest rate sensitive, such as oil and food. So would a further interest rate hike help to bring inflation down under these circumstances?

The interest rate hikes coupled with ongoing turmoil in global credit markets have resulted in severe strain being placed on the local securitization markets. Significant spread widening and lack of liquidity has prevailed. The Asset Backed Commercial Paper (ABCP) market is in an oversupplied position since a large unit trust fund, outside of its mandate, was forced to withdraw its holdings. Spreads have since widened to around JIBAR + 40 basis points - a level never seen before, and in our opinion attractive for a good quality, transparent AAA-rated ABCP instrument of up to 3-months to maturity. We have been investing in the ABACAS and Blue Titanium ABCP issues at these spreads for the Coronation Money Market Fund. Under these conditions, the time to pick up bargains is now as the point of maximum stress is reached.

Commercial paper (CP) issuance picked up this past quarter. Typical borrowers in this short term money market space are Sasol, SA Beer, Airports Co of SA, Development Bank of SA and more recently Netcare – all issued at an attractive spread over JIBAR.

The Coronation Money Market Fund had an effective annual yield of 11.26% at the end of the quarter. With call rates at 10.7%, this implies a significant yield pick-up with added diversification for the money market investor.

Tania Miglietta
Portfolio Manager

CORONATION MONEY MARKET

Class A
as at 31 March 2008

Fund category Domestic Fixed Interest Money Market
Fund description To outperform fixed deposits and call accounts, while ensuring capital preservation, stability and liquidity.
Launch date 1 October 1999

Portfolio manager Tania Miglietta
Fund size R1.5 billion
NAV 100.00 cents
Benchmark Alexander Forbes 3-month (STeFI) Index

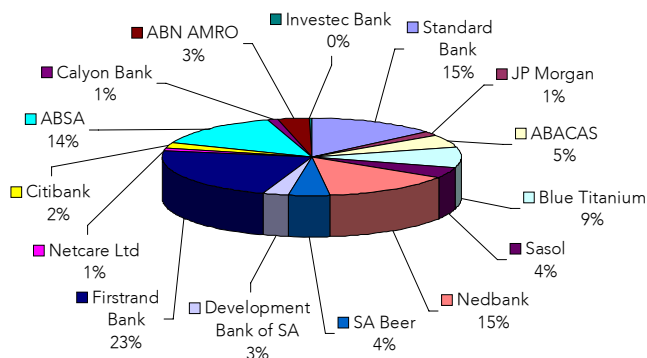
PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Maturity Band	31 Mar 2008
0 – 3 months	71.80%
4 – 6 months	10.33%
7 – 9 months	2.95%
10 – 12 months	14.91%
1 – 3 years	0.00%

CREDIT EXPOSURE

As at 31 March 2008



PERFORMANCE AND RISK STATISTICS¹

PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	2.65%	2.65%	0.00%
Latest 12 months	10.04%	10.04%	0.00%
Latest 36 months (annualised)	8.22%	8.27%	-0.05%
Latest 60 months (annualised)	8.61%	8.63%	-0.02%
Since inception (annualised)	9.57%	9.65%	-0.08%
2007	9.44%	9.41%	0.04%
2006	7.27%	7.45%	-0.18%
2005	7.05%	7.04%	0.01%
2004	7.87%	7.78%	0.09%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	0.53%	0.57%
Sharpe ratio	-0.94	-0.73
Maximum gain	117.43%	118.85%
Maximum drawdown	0.00%	0.00%
Positive months	100.00%	100.00%

INCOME DISTRIBUTIONS

Declaration	Payment	Yield
31/03/2008	01/04/2008	11.26
29/02/2008	01/03/2008	11.29
31/01/2008	01/02/2008	11.14
31/12/2007	01/01/2008	10.51

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2008	0.87%	0.85%	0.91%									
Fund 2007	0.74%	0.64%	0.70%	0.73%	0.74%	0.70%	0.78%	0.78%	0.72%	0.87%	0.81%	0.85%
Fund 2006	0.58%	0.51%	0.56%	0.51%	0.60%	0.56%	0.58%	0.61%	0.58%	0.66%	0.65%	0.64%

FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee*	0.30%
*A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.	
Total Expense Ratio (TER)²	0.35% per annum

Advice Costs (excluding VAT)

- An ongoing advice fee may be facilitated on agreement between the Client and Financial Advisor.
- Ongoing advice fees may be negotiated to a maximum of 0.25% per annum charged by way of unit reduction and paid to the Financial Advisor monthly in arrears. This annual advice fee is not part of the normal annual management fee as disclosed above.
- Where commission and incentives are paid, these are included in the overall costs.