CORONATION STRATEGIC INCOME

Class A
as at 31 March 2008

CORONATION FUND MANAGERS

The Coronation Strategic Income Fund has weathered a turbulent storm relatively well this quarter, producing a positive return for the quarter. High volatility has been the name of the game in the past 3 months, with equities moving in wild swings. Property stocks, never immune from a general equity sell-off, suffered the consequences. The fund's 6.8% holding, although small, was the main detractor from otherwise good positioning. We do however see value in these shares and over time they should again become net contributors to performance.

Our decision to avoid Liberty International plc, after exiting above the R150 price in February 2008, was based on its extreme volatility and lack of protection against the weakening rand. This share is typically held as the fund's only form of rand protection as the portfolio is not mandated to hold direct offshore exposure (unlike a number of other portfolios operating in the varied fixed income space).

During the quarter we maintained a low fund duration, holding a 0% government bond position given our concerns around the ratcheting CPI, its resultant impact on the bond market and the ongoing negative sentiment on SA. When the currency weakened during the quarter our conservative positioning protected us from a sharp sell-off in the bond market. Since then we have started to increase the bond holding at the higher yields above 9%.

Going back, we note that the SA bond market has had a particularly poor start to the year. The all bond index returned -1.88% for the quarter and -0.53% for the month of March. The long end of the yield curve was the hardest hit with 12+ year bonds losing in excess of 6.5% for the quarter, while the 1-3 year component achieved the highest return of 1.6%. This weak performance from the bond market was fuelled by further negative surprises on CPIX inflation, a sharply weaker currency, an intensification of the credit crunch overseas (with the Bear Stearns distressed bailout by JP Morgan) and a widening in emerging market spreads. Needless to say, in this environment the all bond index once again underperformed both cash and inflation-linked bonds during the quarter.

Money market rates are holding up in a market where ongoing repo rate hikes are still forecast by some economists. 12-month rates are trading around 12.20% and FRAs, which reflect 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.

Preference shares are providing very attractive yields. The ABSA preference share, a significant holding in the fund, has held up well during the quarter, paying out a handsome dividend linked to the prime rate, which is now at 14.5%. The yield on this stock is currently 11.15% - and for now, tax free.

Looking forward, our analysis shows that we are very close to the peak in inflation. It is important to remember that inflation is a means of measuring the rate of growth of prices, which means that prices remaining high do not mean high inflation. Food prices, although not falling yet, are in the process of topping out supported by the huge supply response domestically. Oil remains an enigma and is likely to remain at speculative levels 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 Eskom is asking for, we could see the inflation rate peaking in double digits of around 10.50% by July of this year.

Evidence in the economy suggests that the past eight interest rate hikes, taking us from 7.00% in June 2006 to 11.00%, are in the process of working. Retail sales and vehicle sales are already under enormous pressure, with more to come as the lagged effect of monetary policy (12 – 18 months) works its way into the system. While the full effects of the four interest rate hikes in 2007 have not yet fully filtered through, any excess consumer demand in the economy has shown signs of abating. 'Yes' we have an inflation target, and 'yes' we are in breach due to factors beyond our control, namely oil and food. But would a further interest rate hike help? Or would the impact on the consumer be the equivalent of 'pushing on a piece of string?' That said, any further rate hike impact on the rand could present a different story.

The interest rate hikes and ongoing turmoil in global credit markets have put the local corporate credit and securitization markets under severe strain. This, combined with incessant funding pressure from the local banks, has resulted in these markets virtually ceasing to function. Examples are the recent shelving of a home loan securitisation by one of the big four banks through lack of demand; The Development Bank of Southern Africa issuing only R1billion of a proposed new R2 billion bond due to lack of bids, and most recently, the large blue chip, Anglo American being forced to withdraw their inaugural bond issue due to insufficient demand at a reasonable price (140 bps over the referenced Government bond. "Limit up" exposure to corporate credit by institutional investors and a lack of liquidity has all but caused trade in this market to dry up. Furthermore, one of the largest money market unit trust funds which had been an aggressive accumulator of Asset Backed Commercial Paper (ABCP – a regulatory arbitrage vehicle that invests predominantly in securitisations and corporate credit) has virtually withdrawn from this area of the market, leaving it and the credit market in an oversupplied position.

A further problem in the credit market has been the lack of realistic price discovery and marking to market of a number of the assets due to poor tradability. All of this adds up to a relatively toxic concoction which needs to right itself before planned new issuance can find its way comfortably into the bond market.

That being said, the time to pick up bargains in this area of the market could be fast approaching as its point of maximum stress is reached.

We should be approaching the cyclical peak in inflation and from a fair valuation point of view bonds are beginning to show value. Thus we would advocate starting to lengthen the duration of the Coronation Strategic Income Fund.

Given this background, we have started to increase the fund's bond holding, favouring longer dated government bonds, taking the portfolio's modified duration to 2.0, up from 1.6 in February.

We continue to manage the fund in a conservative and focused manner relative to its mandated benchmark. This is particularly so when the news is so overwhelmingly negative, however we do remain cognisant that this is when many good opportunities emerge.

Mark le Roux and Tania Miglietta
Portfolio Managers

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as at 31 March 2008

CORONATION FUND MANAGERS

Fund category	Domestic Fixed Interest Varied Specialist	Portfolio manager/s	Mark le Roux and Tania Miglietta
Fund description	A widely diversified, actively managed fund that aims to provide a higher level of income than a pure income fund.	Fund size	R5.2 billion
		NAV	1290.33 cents
		Benchmark	BEASSA ALBI (1 - 3 year) TR Index
Launch date	2 July 2001		

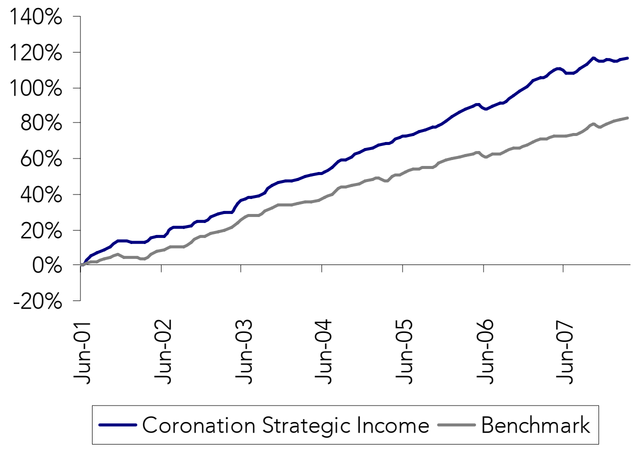
PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Mar 2008
Domestic Assets	100.0%
Cash/Money Market	50.7%
Bonds	34.0%
Listed Property	6.8%
Preference Shares	8.0%
Other investments	0.5%
International Assets	0.0%

PERFORMANCE AND RISK STATISTICS[1]

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31/03/2008	01/04/2008	28.02	3.52	24.50
31/12/2007	01/01/2008	24.14	1.11	23.03
30/09/2007	01/10/2007	25.33	2.82	22.51
30/06/2007	01/07/2007	23.45	1.10	22.35

PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	0.47%	1.60%	-1.13%
Latest 12 months	4.90%	6.47%	-1.57%
Latest 36 months (annualised)	8.81%	7.28%	1.53%
Latest 60 months (annualised)	10.84%	8.77%	2.07%
Since inception (annualised)	12.13%	9.32%	2.82%
2007	7.73%	7.07%	0.66%
2006	10.40%	5.65%	4.75%
2005	9.85%	7.70%	2.16%
2004	11.88%	10.17%	1.71%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	3.50%	2.68%
Sharpe ratio	0.67	-0.17
Maximum gain	29.19%	15.89%
Maximum drawdown	-1.29%	-1.85%
Positive months	90.12%	86.42%

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2008	-0.26%	0.34%	0.39%									
Fund 2007	1.69%	0.79%	0.67%	1.70%	0.18%	-1.06%	0.02%	1.21%	1.24%	1.34%	-0.76%	0.49%
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%

FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee*	1.00%
* 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]	1.12% per annum

Advice Costs (excluding VAT)

- Initial and ongoing advice fees may be facilitated on agreement between the Client and Financial Advisor.
- An initial advice fee may be negotiated to a maximum of 3% and is applied to each contribution and deducted before investment is made.
- Ongoing advice fees may be negotiated to a maximum of 1% per annum (if initial advice fee greater than 1.5% is selected, then the maximum annual advice fee is 0.5%), 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.

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