

The Coronation Bond Fund outperformed the ALBI by 1.56% for the month of March and 0.59% for the first quarter of 2005.

Although the bond market started the year off by extending the rally seen in the second half of 2004, even reaching record low yields in February, March saw a change in sentiment in the market. The extent of the sell-off in bonds saw the All Bond Index (ALBI) lose 3.7% in that month alone, dragging the overall first quarter ALBI performance into the red at -0.3%. The move seen was a bear steepening, i.e. the longer end of the yield curve fared the worst. In fact, the 12 years and over sector of the yield curve declined by some 7.7% during the month, bringing the first quarter performance for that sector to -1.7%. However, the shorter end of the yield curve was protected, with both the 1-3 and 3-7 year sectors returning a positive 0.2% over the quarter. Still, those returns far lagged cash which returned 1.9% over the quarter.

A number of factors led to the weaker performance in the bond market. While some in the market had expected a repo rate cut at the February Monetary Policy Committee (MPC) meeting which did not materialise, we believe the more important factors were the same ones that supported bonds in the second half of last year, namely the global backdrop. In this instance, though, the global background is now less supportive. Most indicators of risk appetite worsened through March, led by a rise in US bond yields and upwardly revised expectations of the path of short-term US interest rates this year. These undermined emerging market bonds in general, as well as the rand. The latter's depreciation, coupled with a renewed rise in international oil prices, has led to investors looking past current good inflation data and towards rising inflation from March.

A change in global risk appetite as well as a reduction in market complacency regarding domestic inflation are risks to the bond market that have concerned us for some time and the driving reason why we used strength in the bond market in the last quarter of 2004 as well as first two months of 2005 to reduce the modified duration (interest rate risk) of the fund. The bond market became so expensive on a fundamental basis towards the end of February that we took the duration of the fund as low as two years short of the ALBI (the benchmark for the fund). Given the subsequent retracement in yields to higher levels during March, we have increased the duration of the fund slightly (to 1.75 years short of the benchmark) but have utilised call options to achieve this portfolio change as we are concerned about capital risk should bond yields continue to rise.

The outlook for bonds is still risky given a backdrop of rising South African inflation as well as uncertainty regarding the pace of increase in US interest rates which will leave risky assets such as emerging markets vulnerable. Our investment stance within the fund is thus still conservative with an emphasis on low capital risk until the bond environment becomes more favourable. Once yields have reached levels which we feel to be fairly valued given these risks, we will look for levels to increase the duration of the fund as well as exposure to the longer dated end of the yield curve.

**Melanie Stockigt**  
Portfolio Manager

Fund category	Domestic Fixed Interest Bond
Benchmark	BEASSA ALBI TR Index
Launch date	1 August 1997
Portfolio manager	Melanie Stockigt
Fund size	R156 million
NAV	1323.70 cents
Annual management fee	0.75% (ex VAT)

**Fund description**

Seeks to provide investors with a well-diversified exposure to the SA bond market.

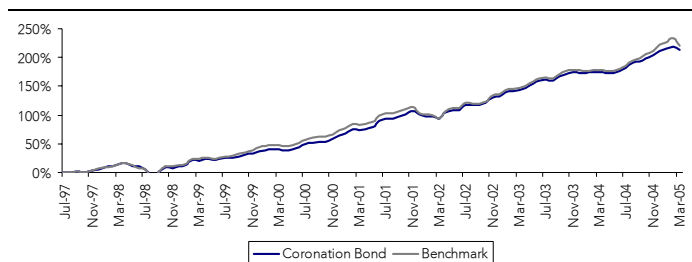
**ASSET ALLOCATION**

Maturity Band	31 Mar 2005	31 Dec 2004
0 – 1 year	13.31%	8.68%
1 – 3 years	12.00%	7.87%
3 – 7 years	52.79%	62.05%
7 – 12 years	18.11%	19.94%
12+ years	3.79%	1.46%

**RISK STATISTICS**

	Fund	Benchmark
March 2005	-2.11%	-3.67%
YTD	0.27%	-0.33%
Annual return since inception	16.03%	16.41%
Annual deviation since inception	8.68%	10.41%
Sharpe ratio	0.45	0.43
Maximum gain	26.21%	26.36%
Maximum drawdown	-19.02%	-22.26%
Positive months	77.17%	76.09%

**PERFORMANCE SINCE INCEPTION**



**ANNUAL RETURNS SINCE INCEPTION**

	Fund	Benchmark	Active Return
2004	13.94%	15.25%	-1.31%
2003	17.47%	18.07%	-0.60%
2002	16.32%	15.96%	0.36%
2001	22.36%	17.84%	4.52%
2000	19.43%	19.44%	-0.01%
1999	23.05%	28.73%	-5.68%
1998	5.00%	5.04%	-0.04%
1997	6.08%	7.12%	-1.04%

**INCOME DISTRIBUTIONS**

Declaration	Payment	Amount	Interest
31/03/2005	01/04/2005	59.42	59.42
30/09/2004	01/10/2004	83.29	83.29
31/03/2004	01/04/2004	66.02	66.02
30/09/2003	01/10/2003	83.43	83.43

**MONTHLY PERFORMANCE RETURNS FOR THE LAST THREE YEARS**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2005	1.04%	1.38%	-2.11%									
B'mark 2005	1.45%	1.99%	-3.67%									
Fund 2004	-0.59%	0.88%	0.19%	-0.67%	0.20%	0.95%	1.75%	3.29%	1.19%	1.86%	1.86%	2.29%
B'mark 2004	-1.03%	0.96%	-0.23%	-0.81%	0.14%	1.12%	1.98%	3.51%	1.28%	2.17%	2.25%	3.06%
Fund 2003	2.72%	1.10%	0.78%	1.49%	2.72%	2.29%	0.36%	-0.11%	2.30%	1.87%	0.85%	-0.10%
B'mark 2003	2.71%	1.07%	0.93%	1.39%	2.81%	2.39%	0.09%	-0.10%	2.68%	1.85%	0.85%	0.11%