CORONATION BOND FUND
as at 30 September 2005

CORONATION FUND MANAGERS

The Coronation Bond Fund produced a return of 1.11% over the past quarter, which was basically in line with the All Bond Index (ALBI) return of 1.10% and behind that of cash at 1.71%. The fund return for the year to date at 5.88% is ahead of the ALBI return of 5.48% and that of cash at 5.34%.

The star performer in the fixed interest universe this year has continued to be inflation-linked bonds (which are not included in the ALBI). The Barclays SA Inflation-Linked Bond Index returned 14.05% in the year to September, with the long dated R202 (maturing 2033) returning an impressive 20.2% year to date. Real yields on linkers have continued to fall, while breakeven inflation has risen. Demand for linkers as protection against rising inflation as well as new product specific demand, has been the main driving force behind the fall in real yields. The fund benefited from exposure of around 6.5% to inflation-linked bonds.

The bond market just managed to eke out a positive return in the third quarter. Despite the strength early in the quarter where the benchmark R153 traded to a record low of 7.36% ahead of the August Reserve Bank Monetary Policy Committee (MPC) meeting, we saw bond yields kick up as the MPC left the repo rate unchanged and a rampant oil price fuelled inflation fears.

Looking at the yield curve, the 7 – 12 year area of the curve was the top performing sector over the quarter, providing a return of 1.49% with the government R203 (2017 maturity) and R204 (2018 maturity) performing particularly well.

The fund's exposure to corporate credit remains at a relatively conservative 15% as we feel that the compression seen in credit spreads seems to have run its course. During the quarter we established a position in the Liberty corporate bond, which we believe showed good value at issue at 120 basis points over the benchmark government bond and, at the same time, we exited our position in Denel bonds over concerns of the financial viability of that entity, despite it being government-owned.

Despite some renewed inflation fear, the market still held up well. It was supported by a relatively good performance from the rand (helping mitigate concerns about inflation), as well as a continued largely sideways movement in US Treasuries. While the US Federal Reserve Bank (Fed) has continued raising US interest rates, it is noteworthy that the Fed recently released a study indicating that foreign investment in the US bond market has seen 10-year bond yields at levels 100 to 150 basis points below where they might otherwise be expected. Because SA bonds, like most bonds internationally, are effectively priced off US yields, this has had a dampening effect on bond yields globally, including SA.

We have for some time held the view that official interest rates are likely to rise in 2006. CPIX (inflation excluding mortgage interest rates) is beginning to pick up, from a low of 3.1% in February 2005 to 4.8% in August, as the weakness in the rand this year and higher petrol prices start taking effect.

Food price inflation has remained very low, and this has helped offset the effect of rising petrol prices (CPIX excluding food was at 5.5% in August). We see inflation rising further next year, likely sailing close to the top of the Reserve Bank's 3% to 6% target range for CPIX. There is a chance that it will breach the top of the target range. Factors (other than the petrol price) that may see this happen include a less benign food price environment (maize futures prices have risen sharply in recent months), rising global inflation (affecting imported inflation) and a potentially weaker rand. There will be further pressure on input prices from above-inflation wage increases this year. With consumer spending so strong, there seems little incentive for retailers to try absorb a rising cost base into their margins. We thus still expect that cyclical pressures on inflation will probably see interest rates rise next year, but that this (especially compared to historic standards) will be contained, probably at between 1.5% to 2%.

We reiterate that our bearish view on inflation is a short-term, cyclical view, and that the structural improvement remains in place. But we emphasise that while we believe SA has in general moved into a structurally lower inflation environment, we cannot ignore the fact that inflation will still exhibit cyclical movements.

US yields remain the most important factor in determining SA yields, and thus a continuation of the low yield environment that we have seen will be supportive for SA bonds. While US bond yields have certainly surprised on the low side, we still expect some increase in yields based on economic fundamentals (though the extent will likely be mitigated by continuing capital inflows to the US Treasury market from Asia). We also anticipate that the global backdrop for emerging markets – incredibly favourable at present as it rides high on a wave of risk appetite – will deteriorate somewhat as the Fed continues to raise rates, reducing liquidity and raising the relative "risk-free" rate of return.

Thus, our overall view remains one of some further weakening in the bond market, due to inflation being in an upward cycle, US bond yields rising further, global risk appetite reducing, and some higher supply.

Currently we maintain a short bias in the fund relative to the ALBI, with a fund modified duration of 3.5 (excluding inflation-linked bonds) versus a modified duration of 4.95 of the ALBI. Our exposure is predominantly in the short and medium dated area of the curve, avoiding the long end as we do not feel that we are being sufficiently compensated in yield for the capital risk taken in the long end.

Mark le Roux
Portfolio Manager

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CORONATION FUND MANAGERS

Fund category	Domestic Fixed Interest Bond	Benchmark	BEASSA ALBI Index
Launch date	1 August 1997	Fund description	Seeks to provide investors with a well-diversified exposure to the SA bond market.
Portfolio manager	Mark le Roux		
Fund size	R175.6 million		
NAV	1335.17 cents		
Annual management fee	0.75% (ex VAT)		

ASSET ALLOCATION

Maturity Band	30 Sep 2005	30 Jun 2005
0 – 1 year	14.65%	27.21%
1 – 3 years	10.07%	11.16%
3 – 7 years	50.22%	39.61%
7 – 12 years	14.31%	17.16%
12+ years	10.75%	4.86%

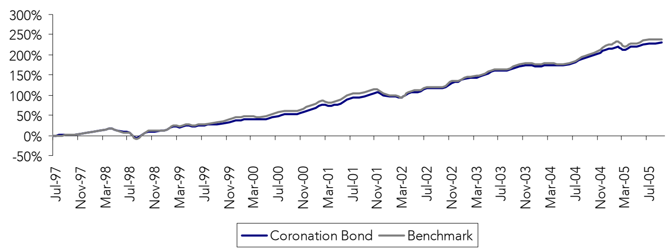
PERFORMANCE & RISK STATISTICS

	Fund	Benchmark
Latest 12 months	12.37%	13.57%
Latest 36 months (annualised)	14.84%	15.57%
Latest 60 months (annualised)	16.64%	15.99%
Since inception (annualised)	15.75%	16.14%
Annual deviation since inception	8.44%	10.13%
Sharpe ratio	0.47	0.44
Maximum gain	26.21%	26.36%
Maximum drawdown	-19.02%	-22.26%
Positive months	78.57%	76.53%

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%

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest
30/09/2005	01/10/2005	49.05	49.05
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

PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
Fund 2005	1.04%	1.38%	-2.11%	2.01%	0.35%	2.02%	0.62%	0.16%	0.32%				5.88%
B'mark 2005	1.45%	1.99%	-3.67%	2.06%	-0.12%	2.69%	1.00%	0.02%	0.08%				5.48%
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%	13.94%
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%	15.25%

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