CORONATION BOND FUND
as at 31 March 2006

CORONATION FUND MANAGERS

In a relatively rare turn of events in recent times, the SA bond market produced a negative return in March. The All Bond Index (ALBI) fell by 0.23% over the month, although shorter-dated bonds did produce small positive returns which, from an index perspective, were outweighed by losses in longer-dated bonds. Over the first quarter, bonds still produced a positive return of 1.5%. Again, the shorter area was the place to be: the 1 – 3 and 3 – 7 year areas each returned 1.8%, but longer bonds produced less and the 12-years plus area returned just 0.6% over the quarter.

Bonds were the worst performers in both March and in the first quarter, being beaten even by cash (+1.8%) and, as has become commonplace, by inflation-linked bonds (+2.7%). All fixed interest categories were roundly trounced by equities, with the All Share Index rising 7.1% in March to take its first quarter return to 13.3%.

It certainly was not as though any great problem beset South Africa in particular; on the contrary, the bond market took heart from a continued relatively strong rand and contained inflation. Rather, we saw bonds weaken as a spillover from jitters in global markets.

Bond yields in developed countries have generally risen to levels that are around two-year highs (though in absolute, historical terms they remain relatively low).

To some extent this represented the Federal Reserve pulling US bonds kicking and screaming upwards, as it continued a steady upward move in the Fed funds rate (now, at 4.75%, well above what consensus had expected a year ago). But the developments were actually wider than just the US, and more interesting for that, as signs of more sustained economic growth in the laggards started to feed into central bank interest rate expectations.

Europe has long been considered a "dog" in terms of growth, but a spate of positive actual data and forward-looking surveys and the European Central Bank's traditional hawkishness on inflation have combined to see official interest rates rising – with more expected to come over the course of this year. But the most interesting has probably been the confirmation of a structural change in Japan: the "end of deflation" has been proclaimed, the Bank of Japan has started to withdraw "quantitative easing" and is expected to actually raise rates sometime during the second half of the year.

Despite all this, emerging markets continued to perform well. The current line of thinking seems to be that despite the gradual withdrawal of liquidity, global growth remains robust and so emerging markets – most of which export commodities or are otherwise geared to the global growth cycle – will continue to perform well.

While accepting that this is a valid argument, we also remain somewhat cautious. South Africa will continue to do well as long as the general emerging market universe is in favour, but we note that some jitters have set in with some emerging markets (Iceland, Hungary) and some developed commodity exporters (New Zealand) finding their currencies under pressure. The rand did not escape a bout of the jitters, though at the time of writing it has retraced its losses. We remain concerned that falling global risk appetite will see currency weakening of countries that are running large current account deficits and in turn potentially place upward pressure on inflation and interest rates; South Africa would fall into this grouping.

Of course, local developments are also important in determining a final value for bond yields: while global bond market movements are likely to be a primary determinant of trend, local issues will affect South African bond spreads versus other countries. Inflation, while expected to drift up further from its trough, is not expected to provide any major scares (unless there is a sharp move downwards in the rand). However, other local developments support at best an unchanged repo rate, with risks that the next move is up – a point of view now publicly espoused by Governor Mboweni. The main concern from a monetary policy perspective at present is the booming domestic economy; while higher growth is good, the extent of what we are seeing appears to be stretching the economy's capacity. Such imbalances show up in the ever-widening current account deficit; if left unchecked to grow indefinitely, this will eventually become unsustainable with a potentially messy rand (and inflation) outcome as a result.

Thus, looking at both the global and domestic backdrops, we would expect the upward drift in bond yields to continue this year.

Mark le Roux
Portfolio Manager

CORONATION BOND FUND
as at 31 March 2006

CORONATION FUND MANAGERS

Fund category	Domestic Fixed Interest Bond		
Launch date	1 August 1997	Benchmark	BEASSA ALBI Index
Portfolio manager	Mark le Roux	Fund description	Seeks to provide investors with a well-diversified exposure to the SA bond market.
Fund size	R178.5 million		
NAV	1366.77 cents		
Annual management fee	0.75% (ex VAT)		

ASSET ALLOCATION

Maturity Band	31 Mar 2006
0 – 1 year	24.40%
1 – 3 years	13.13%
3 – 7 years	18.04%
7 – 12 years	25.13%
12+ years	19.30%

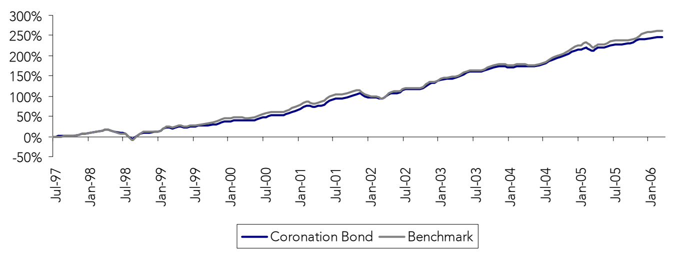
PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Latest 12 months	12.20%	12.85%
Latest 36 months (annualised)	12.89%	13.47%
Latest 60 months (annualised)	15.20%	14.74%
Since inception (annualised)	15.58%	15.99%
Annual deviation since inception	8.22%	9.86%
Sharpe ratio	0.44	0.41
Maximum gain	26.21%	26.36%
Maximum drawdown	-19.02%	-22.26%
Positive months	78.85%	76.92%

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	10.96%	10.80%	0.16%
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
31/03/2006	01/04/2006	50.61	50.61
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

PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
Fund 2006	0.72%	0.93%	-0.26%										1.39%
B'mark 2006	0.96%	0.78%	-0.23%										1.51%
Fund 2005	1.04%	1.38%	-2.11%	2.01%	0.35%	2.02%	0.62%	0.16%	0.32%	0.70%	2.12%	1.91%	10.96%
B'mark 2005	1.45%	1.99%	-3.67%	2.06%	-0.12%	2.69%	1.00%	0.02%	0.08%	0.63%	2.37%	1.97%	10.80%