CORONATION BOND FUND
as at 31 March 2007

CORONATION FUND MANAGERS

Despite losing ground in March, the All-Bond Index (ALBI) managed to return 1.6% over the first quarter of 2007. This was ahead of the 1.0% returned by inflation-linked bonds, but fell short of the 2.3% return generated by cash. Longer dated bond performance lagged over the quarter while the 1-3 year area produced a return close to cash. The Coronation Bond Fund returned 1.63% over the quarter.

Although the front end of the yield curve rallied somewhat over the quarter as the SARB left rates unchanged at the February MPC meeting, the longer end of the market weakened, resulting in a bear flattening of the yield curve. Earlier in the year prospects for inflation had looked better, resulting in the MPC's decision to leave rates unchanged. Since then, a number of factors took a turn for the worse, including a weaker rand and significantly higher oil and food prices.

We are now less optimistic about the inflation profile over the next year than we were previously. This is partly due to lingering concerns about the rand from the continued wide current account deficit, and is exacerbated by strength in oil and food prices. While we still think that any breach of the target that may occur would be small and temporary, we now see targeted CPIX inflation moving largely sideways over the next year, mainly between 5.5% and 6% - i.e. close to the upper end of the 3-6% target range. With a profile like this, we would not expect there to be much chance of SARB interest rate cuts over the next 12 months, especially if the current account deficit remains wide. We now think the first window for a rate cut (unless there is a sharp reversal in any of the risk factors such as oil and food prices) is June 2008.

Despite the worse (but not terrible) inflation profile, there are factors that are still supporting the bond market. An important structural one is the improvement in SA's fiscal position. In February the Minister of Finance announced that SA recorded its first-ever budget surplus in 2007/08 – and this figure was quickly revised upwards to 0.6% of GDP once the final fiscal year cash flows were announced at the end of March. The next few years are expected to show either small surpluses or deficits – to all intents and purposes, we are looking at a balanced budget over the next few years. One of the principal beneficiaries of this will be the bond market, where there will be a net buyback of debt this year. The supply side is thus looking very positive for bonds. While we anticipate that there will continue to be a significant amount of non-government issuance into the market (both corporate and parastatal), we would expect this to be more reflected in spreads of these instruments than in the actual underlying level of the yield curve.

The other current positive in the market is the one that concerns us in terms of sustainability: the positive global backdrop. Global risk appetite remains strong and an important support for risky assets, including emerging market bonds, but we remain concerned at anecdotal evidence of investors looking for yield without being fully cognisant of the risks involved. The biggest threat currently is probably a combination of lower growth in the US but coupled with higher inflation, leading to the Federal Reserve not being able to cut rates as quickly as some hope. Combined with lower US growth which would reduce demand for emerging market exports, this could be a catalyst for an unwind of risk appetite. We note that the Fed still expresses concerns about inflation risk being to the upside.

For SA, the most important consequence of a substantial reduction in risk appetite would be that funding the large current account deficit would become more difficult, and this would put the rand – and hence inflation – under renewed pressure. While timing remains unknown, we feel this is a risk we cannot ignore.

With our proprietary valuation models showing that valuations are stretched, the global and local (inflation) risks mentioned above and the competitive returns currently offered in the money market, we are cautious on bonds at present. We would emphasise, however, that these are cyclical factors and that the longer term positive structural story remains intact. The positive supply/demand story as well as the credibility of the SARB with respect to the inflation target should keep longer-dated yields supported, while short-dated yields will be more dependent on expectations of and actual moves in the repo rate.

Mark le Roux
Portfolio Manager

Unit trusts should be considered a medium- to long-term investment. The value of units may go down as well as up. Past performance is not necessarily an indication of future performance. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. Instructions must reach the Management Company before 2pm (12pm for the Money Market Fund) to ensure same day value. Commission and incentives may be paid, and if so, are included in the overall costs. Forward pricing is used. Figures quoted are from Micropal as at 31 March 2007 for a lump sum investment using NAV prices with income distributions reinvested. This is for internal use only as this does not comply with the Code of Practice for Advertising of Unit Trusts. A member of the Association of Collective Investments, South Africa.

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CORONATION FUND MANAGERS

Fund category	Domestic Fixed Interest Bond
Launch date	1 August 1997
Portfolio manager	Mark le Roux
Fund size	R319.2 million
NAV	1369.78 cents
Annual management fee	0.86% (incl VAT)
Initial fee	0.00%

Benchmark	BEASSA ALBI Index
Fund description	Seeks to provide investors with a well-diversified exposure to the SA bond market.

ASSET ALLOCATION

Maturity Band	31 Mar 2007
0 – 1 year	19.83%
1 – 3 years	8.28%
3 – 7 years	19.33%
7 – 12 years	28.16%
12+ years	24.40%

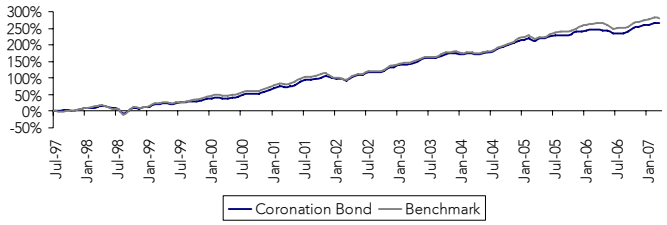
PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	1.63%	1.62%
Latest 12 months	7.01%	5.59%
Latest 36 months (annualised)	10.93%	11.14%
Latest 60 months (annualised)	14.18%	14.45%
Since inception (annualised)	14.67%	14.87%
Annual deviation since inception	7.95%	9.54%
Sharpe ratio	0.39	0.35
Maximum gain	26.21%	26.36%
Maximum drawdown	-19.02%	-22.26%
Positive months	77.59%	76.72%

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2006	6.76%	5.48%	1.28%
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
31/03/2007	01/04/2007	49.74	49.74
30/09/2006	01/10/2006	35.92	35.92
31/03/2006	01/04/2006	50.61	50.61
30/09/2005	01/10/2005	49.05	49.05

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2007	0.65%	1.25%	-0.27%									
B'mark 2007	0.69%	1.37%	-0.44%									
Fund 2006	0.72%	0.93%	-0.26%	1.02%	-0.76%	-2.38%	0.63%	-0.18%	1.43%	3.26%	0.91%	1.34%
B'mark 2006	0.96%	0.78%	-0.23%	1.16%	-1.12%	-3.61%	0.68%	0.04%	1.36%	3.11%	0.86%	1.51%

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