

CORONATION BOND

Class R

as at 30 September 2007

The bond market staged a rally in September, helping to lift the All-Bond Index (ALBI) to a 3.4% return for the third quarter. This was one of the few times over the past year where bonds have outperformed both cash and inflation-linked bonds. Significant weakness in the bond market in the May - August period is still depressing longer-term returns however, where the ALBI has returned 3.3% year-to-date and 1.6% over the past 6 months, in both instances underperforming both cash and inflation-linkers. The Coronation Bond fund has performed in line with the ALBI producing returns of 3.33% (3rd quarter), 1.76% (6 months), 3.42% (YTD) and 9.20% (12 months).

While a number of other developed economies have put previous rate hiking cycles on hold in the wake of the Fed's move, not all have – and SA's current inflation situation remains an uncomfortable one. CPIX has been above the upper limit of its 3% - 6% target range since April, and will probably be there until March 2008: representing a full year above the target range. While much of this impetus has been driven by food prices and last year's rand fall, the SARB remains concerned about credibility. One other unnerving factor remains: the current account, where the deficit is likely to stay above 6% of GDP as the (necessary) infrastructure investment programme gathers momentum.

Bond and money market returns

Name	September 2007	3 months	6 months	12 months	Year-to-date
All Bond	2.34%	3.4%	1.6%	9.0%	3.3%
GOVI	2.29%	3.3%	1.7%	9.2%	3.3%
OTHI	2.65%	3.7%	1.2%	7.9%	3.0%
Bonds 1-3 Years	1.55%	2.7%	3.4%	8.1%	5.7%
Bonds 3-7 Years	2.35%	3.2%	2.8%	8.5%	4.7%
Bonds 7-12 Years	2.57%	3.5%	1.6%	10.5%	3.4%
Bonds 12+ Years	3.23%	4.4%	0.2%	11.2%	1.0%
Cash	0.83%	2.5%	4.8%	9.6%	7.3%
Barclays BESA Govt Inflation-Linked Bonds	1.72%	1.4%	2.6%	6.2%	3.6%

Source: Deutsche Securities

The SARB raised the repo rate another 50bp in August, bringing it to 10%. While concerns around inflation lingered with a string of worse-than-expected data releases, sentiment started turning after international factors took the lead role. As concerns about the sub-prime fall-outs impact on financial markets spread – with weak jobs and housing data in the US – the market started to price in a US rate cut. The Federal Reserve duly delivered, even surprising the markets with a 50bp cut at its September 18 FOMC meeting (most analysts had expected 25bp).

The Fed's move reignited interest in risky assets, with SA bonds joining a general emerging markets rally. The dollar has also come under pressure recently, from a combination of the turn in the US rate cycle and the weaker data, and the rand has benefited handsomely from this, once again breaking through the R/\$7 level. Given the importance of the rand to SA's inflation outlook, and against a background of near-record highs in global food and energy prices, the currency move is a welcome respite.

On a longer-term view, however, the big picture is rosier. Even with the lags involved, meaning that we have some months yet to really gauge the effects, it is already clear that consumer spending and consumer credit cycles have turned as the effects of past rate rises start to bite. At the time of writing, the October MPC has yet to take place; while it will be a close call, we think there are solid arguments for leaving rates unchanged. If they do rise again, it should clearly be the peak in the cycle. On the current outlook, we see scope for the repo rate to start falling in the second half of 2008.

Mark le Roux
Portfolio Manager

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Fund category	Domestic Fixed Interest Bond
Fund description	Seeks to provide investors with a well-diversified exposure to the SA bond market.
Launch date	1 August 1997

Portfolio manager	Mark le Roux
Fund size	R393.7 million
NAV	1343.32 cents
Benchmark/performance fee hurdle	BEASSA ALBI Index

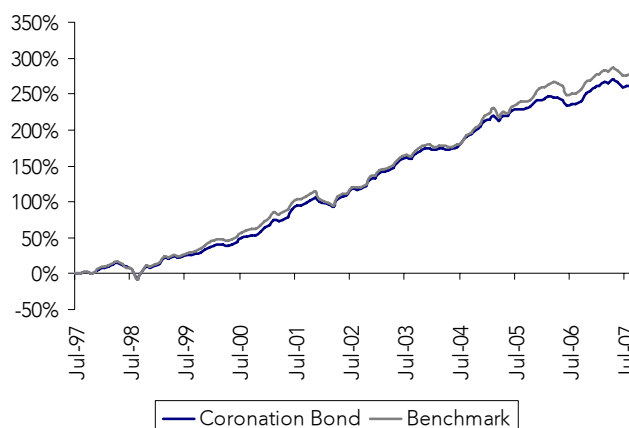
PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Maturity Band	30 Sep 2007
0 – 1 year	11.39%
1 – 3 years	17.18%
3 – 7 years	10.75%
7 – 12 years	37.94%
12+ years	22.74%

PERFORMANCE AND RISK STATISTICS¹

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Interest
30/09/2007	01/10/2007	53.11	53.11
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

PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	3.41%	3.29%	0.12%
Latest 12 months	9.20%	9.03%	0.17%
Latest 36 months (annualised)	9.14%	9.13%	0.01%
Latest 60 months (annualised)	11.87%	12.06%	-0.19%
Since inception (annualised)	14.09%	14.27%	-0.18%
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%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	7.86%	9.40%
Sharpe ratio	0.33	0.30
Maximum gain	26.21%	26.36%
Maximum drawdown	-19.02%	-22.26%
Positive months	77.05%	76.23%

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2007	0.65%	1.25%	-0.27%	1.47%	-0.95%	-2.02%	0.39%	0.68%	2.23%			
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%
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%

FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee¹	0.75%
<small>¹ 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.</small>	
Total Expense Ratio (TER)²	0.87% 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.