# CORONATION OPTIMUM GROWTH FUND
**as at 31 December 2006**

The fund appreciated by 31.1% during 2006 and has generated an annualised return of 24.8% over the past 3 years. The primary drivers of the strong performance over the past year were the relatively high allocation of capital to equities, strong performance from individual stock positions (particularly the international stocks), and to a lesser extent, the depreciation of the rand.

2006 saw another year of strong share price appreciation from most global markets, in particular emerging markets (including South Africa) and Europe. The fund benefited from this as it had relatively high equity exposure and positions in several stocks that appreciated by 50% or more over the past year. Against a backdrop of cheap global credit, 2006 was also the year during which private equity made the headlines on a weekly basis. No less than three of the fund's SA equity positions (Peermont, Edcon and Primedia) were subject to private equity bids and potential bid talk continues to surround many of the fund's international holdings including Home Depot, Vodafone and Limited Brands. Whilst we are quite happy to sell to private equity buyers at the right price, the investment choice in the SA market continues to decline as a result of the private equity phenomena, and makes having a global mandate all the more valuable.

With the SA equity market continuing to appreciate we have been reducing the fund's SA equity exposure as individual shares approach fair value, and taking this cash offshore in order to participate in an infinitely larger universe and in what we believe are more attractive relative valuations. At the time of writing, 65% of the fund was invested internationally with the SA exposure having being reduced further to around 35% of the total fund. This compares to 60% SA exposure 2 years ago when SA equities in particular were very attractively valued. The total equity exposure of the fund is now 75%.

The fund made no new SA equity purchases over the past few months as we are struggling to find attractively valued new ideas. We did however add to the fund's existing positions in Telkom (which is one of the most hated stocks in the SA market and which we believe is very cheap) and Netcare (where we hold the view that the market is underestimating the potential growth from this company over the next 5 years). Naspers continues to be the fund's largest position and although it appreciated by 45% during the course of 2006, we still hold the view that the high quality assets held by this media group are underappreciated and significantly undervalued.

On the international equity part of the portfolio, our patience with regards to the fund's large telecommunications position continued to reap benefits with China Telecom being a very strong performer, up 60% over the past 6 months, and France Telecom, Telefonica, Vodafone and MTS all appreciating by more than 30% over the same period. We continue to hold the view that telecommunications generally are undervalued across the globe and are currently looking at a few new potential purchases, particularly within the Asian region.

The fund made two new purchases of international stocks over the past few months. Hellenic Exchanges is the operator of the Greek stock exchange and possesses the same fundamentally attractive qualities that are found in most stock exchanges around the world: monopolistic or dominant positions, positive operational gearing to increasing market turnover driven by new products and hedge fund activity and great free cash flow generation. Within the global universe, Hellenic Exchanges in particular is in our view also very attractively valued at 15 times earnings. We also added to the fund's position in the Nasdaq Stock Market as concerns lingered over the LSE bid and increased competition in the US market. A total of almost 7% of the fund is now invested in various stock exchanges around the world (NYSE, Nasdaq, JSE and Hellenic Exchanges) and whilst some of these shares may appear expensive on shorter term valuation measures, we believe that on a longer-term 10 year view they are still attractively valued.

Limited Brands is a US-listed retailer that is made up of three parts, with the largest being Lingerie (Victoria's Secret and the recent purchase of the Canadian-based retailer La Senza) and the two smaller units being Beauty and Personal Care (Bath and Body Works) and Apparel (The Limited and Express). Victoria's Secret is the dominant brand within the US lingerie market and enjoys operating margins of around 20% (compared to margins at the group level of 11%). The market however appears to focus on the smaller struggling apparel unit and in doing so is in our view not fully recognising the quality of the other franchises. The La Senza acquisition, although relatively small (less than 5% of group EBIT), will provide the company with expertise on international expansion with which La Senza has been very successful, and international expansion of Victoria's Secret for example could be a very exciting addition to what is already a compelling investment proposition: the share now trades on a forward P/E multiple of less than 14.

Finally we continued to accumulate Pfizer as the share trades at its lowest valuation level in the past 20 years. The short-medium term outlook for the large cap US drug stocks is not particularly appealing with patent expiries, weak pipelines and resultant slow earnings growth. However, Pfizer is now trading on a p:e multiple of 12, has a significant net cash balance and continues to generate large amounts of cash which in turn can be deployed in acquiring smaller promising drug companies, or returning cash to shareholders in the form of dividends and share buy-backs. As a result, we feel the risk/reward relationship favours us as investors in Pfizer today, with limited downside but potentially substantial upside over the next few years.

We believe that there are still various exciting investment opportunities to be found within a global universe and hold the view that the fund is well positioned to produce annualised returns well ahead of inflation over longer time periods.

Gavin Joubert
Portfolio Manager

# CORONATION OPTIMUM GROWTH FUND

**as at 31 December 2006**

CORONATION FUND MANAGERS

| | |
|---|---|
| Fund category | Worldwide Asset Allocation Flexible |
| Launch date | 15 March 1999 |
| Portfolio manager | Gavin Joubert |
| Fund size | R1 billion |
| NAV | 3575.22 cents |
| Annual management fee | 1.00% (ex VAT) |
| Performance fee | 15% ex VAT (above hurdle, capped at 2,5% p.a.) |
| Benchmark | CPIX |
| Performance fee hurdle | CPIX + 5% |
| Fund description | Aims to deliver long-term growth by investing in a combination of local and international investments across all asset classes. |

## EFFECTIVE ASSET ALLOCATION EXPOSURE

| Sector | 31 Dec 2006 |
|---|---|
| Domestic Assets | 42.92% |
| Equity | 32.32% |
| Basic Materials | 2.64% |
| Industrials | 3.32% |
| Consumer Goods | 2.64% |
| Healthcare | 3.81% |
| Consumer Services | 17.50% |
| Telecommunications | 2.58% |
| Financials | 3.75% |
| Derivatives | (3.92%) |
| Cash | 10.60% |
| International Assets | 57.08% |
| Equity | 47.01% |
| Fixed Interest | 3.30% |
| Cash | 6.77% |

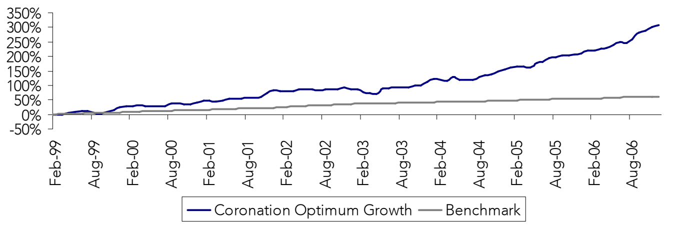
## PERFORMANCE AND RISK STATISTICS

| | Fund | Benchmark |
|---|---|---|
| Year to date | 31.09% | 5.22% |
| Latest 12 months | 31.09% | 5.22% |
| Latest 36 months (annualised) | 24.76% | 4.51% |
| Latest 60 months (annualised) | 17.59% | 5.59% |
| Since inception (annualised) | 20.29% | 6.18% |
| Annual deviation since inception | 10.69% | 1.39% |
| Downside deviation | 5.53% | 0.39% |
| Sharpe ratio | 0.91 | N/A |
| Maximum gain | 28.71% | N/A |
| Maximum drawdown | -11.72% | N/A |
| Positive months | 72.04% | N/A |

## TOP 15 HOLDINGS

| As at 31 December 2006 | % of Fund |
|---|---|
| Naspers Ltd–N ordinary shares | 8.06% |
| Sasol Ltd–ADR | 4.18% |
| Woolworths Ltd | 3.90% |
| Network Healthcare Holdings Ltd | 3.81% |
| Remgro Ltd | 3.32% |
| Edinburgh Partners Euro Fund | 2.78% |
| Impala Platinum Holdings Ltd | 2.64% |
| Telkom SA Ltd | 2.58% |
| NYSE Group Inc. | 2.53% |
| Standard Bank Group Ltd | 2.40% |
| France Telecom SA | 2.35% |
| Comgest Nouvelle Asie | 2.25% |
| Harley Davidson | 1.83% |
| China Telecom Corp Ltd | 1.79% |
| Telefonica SA | 1.75% |
| Total | 46.17% |

## CUMULATIVE PERFORMANCE SINCE INCEPTION




## INCOME DISTRIBUTIONS

| Declaration | Payment | Amount | Dividend | Interest |
|---|---|---|---|---|
| 30/09/2006 | 01/10/2006 | 66.66 | 51.02 | 15.64 |
| 31/03/2006 | 01/04/2006 | 38.44 | 36.19 | 2.25 |
| 30/09/2005 | 01/10/2005 | 0.00 | 0.00 | 0.00 |
| 31/03/2005 | 01/04/2005 | 0.00 | 0.00 | 0.00 |

## ANNUAL RETURNS SINCE INCEPTION

| | Fund | Benchmark | Active Return |
|---|---|---|---|
| 2005 | 23.91% | 4.03% | 19.87% |
| 2004 | 19.54% | 4.44% | 15.10% |
| 2003 | 13.37% | 4.21% | 9.15% |
| 2002 | 2.12% | 10.50% | -8.38% |
| 2001 | 30.55% | 6.52% | 24.03% |
| 2000 | 11.61% | 8.21% | 3.40% |
| 1999 | 26.15% | 5.20% | 20.94% |

## MONTHLY PERFORMANCE RETURNS

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund 2006 | 3.19% | -0.07% | 2.05% | 0.99% | 2.17% | 3.60% | -0.96% | 3.63% | 6.62% | 1.37% | 3.69% | 1.32% |
| B'mark 2006 | 0.73% | 0.22% | 0.43% | 0.43% | 0.57% | 0.50% | 1.07% | 0.49% | 0.28% | 0.14% | -0.07% | 0.30% |
| Fund 2005 | 2.48% | 1.20% | 0.77% | -1.62% | 6.58% | 1.02% | 4.34% | 1.14% | 1.84% | 0.80% | 0.15% | 3.17% |
| B'mark 2005 | 0.46% | 0.08% | 1.06% | 0.52% | 0.22% | -0.22% | 1.04% | 0.37% | 0.22% | 0.22% | -0.07% | 0.07% |

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