

Fund category	Domestic Fixed Interest Varied Specialist
Fund launch date	2 October 2006
Portfolio managers	Tania Miglietta and Godwill Chahwahwa
Fund size	R107.7 million
NAV	100.48 cents

Benchmark	Alexander Forbes 3-month (STeFI) Index, tax adjusted for maximum individual tax rate
Fund description	Invests in a range of quality listed preference shares with the aim of maximising yield in the form of dividend income.

ASSET ALLOCATION

Sector	31 Dec 2006
Domestic Assets	100.0%
Bank issued preference shares	51.7%
Corporate issued preference shares	30.7%
Cash	17.6%

PERFORMANCE RETURNS

	Fund	Benchmark
Since inception (unannualised)	N/A	N/A
Annual deviation since inception	N/A	N/A
Sharpe ratio	N/A	N/A
Maximum gain	N/A	N/A
Maximum drawdown	N/A	N/A
Positive months	N/A	N/A

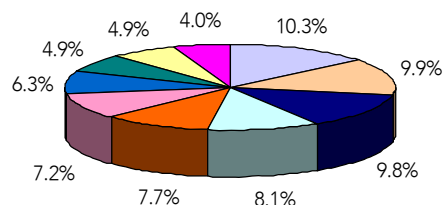
Performance figures will be published once a six-month track record has been established.

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31/12/2006	01/01/2007	1.23	0.89	0.34

TOP 10 HOLDINGS

As at 31 December 2006



- Absa Bank Ltd Preference Share
- Imperial Ltd Preference Share
- Standard Bank Group Preference Share
- Network Healthcare Ltd Preference Share
- Investec Ltd Preference Share
- Grindrod Ltd Preference Share
- FirstRand Bank Ltd B Preference Share
- PSG Ltd Preference Share
- Nedbank Ltd Preference Share
- Mvelaphanda Group Preference Share

TOP 10 HOLDINGS: YIELD AND CREDIT RATING

Preference Share	Annual yield	Credit rating
Absa Bank Ltd	8.8%	AAA
Standard Bank Group	8.7%	AA+
FirstRand Bank Ltd B	8.6%	AA+
Nedbank Ltd	8.5%	AA-
Imperial Ltd	9.3%	A+
Investec Ltd	8.8%	A+
Network Healthcare Ltd	9.5%	A
PSG Ltd	9.6%	A-
Grindrod Ltd	9.5%	BBB+
Mvelaphanda Group	n/a	Internal rating

Launched in October 2006, the fund is the first dedicated preference share unit trust in South Africa. As it has not yet been in existence for a full quarter this report covers the fund since its inception.

The portfolio is made up of a well diversified and careful selection of listed, rated preference shares including those issued by banks and corporates. Specifically these include ABSA, Standard Bank, FirstRand Bank, Nedbank and Investec Bank.

Corporate issued preference shares include those from Imperial Holdings, Netcare Ltd and in smaller proportion Grindrod Ltd, African Bank and PSG Capital. We are well positioned to participate in any new issues brought to the market. These shares are placed in the fund at zero transaction cost as any commission earned for new issues to institutions is donated to the fund. This is not the case with private banks and stockbrokers.

Importantly, the portfolio offers investors better liquidity than if preference shares were to be held directly as clients do have the ability to withdraw their investment at short notice (some restrictions do apply as per the fund fact sheet).

We seek to achieve the highest non-taxable dividend yield for clients from this diversified portfolio of preference shares, offering exposure across a number of sectors (currently we hold 15 different counters, and will be adding more as the market grows).

The risks of the issuing company and its ability to pay the agreed dividend are analysed, and this information used in arriving at a fair value price for the share (as we would for any other equity or bond investment). Our objective is to be as fully invested as possible at all times so as to avoid the build up of taxable interest on the fund.

The growing listed preference share market (currently around R25 billion) offers investors the opportunity to earn non-taxable dividends which are distributed on a quarterly basis to unit holders. These dividends may be reinvested back into the fund.

Preference shares are considered to be low-to-medium risk and are mostly perpetual in nature (no maturity date). They pay out a dividend based on the prevailing prime rate. In most cases the preference shares pay between 60% – 80% of prime, which we consider to be very attractive given their tax exempt status. Should the end of the interest rate hiking cycle be in sight, we expect a greater demand for preference shares. We have recently witnessed fairly notable price weakness in preference shares as interest rates have been rising and believe that the current environment presents a good time to enter this market. Preference shares are sensitive to expected changes in interest rates as the dividend resets intermittently, only as prime rate changes. As interest rates start to flatten out or fall, prices are likely to rise again.

The fund is actively managed, with mispricings and arbitrage opportunities being monitored and taken advantage of for the benefit of unitholders.

As at December 2006, the Coronation Preference Share Fund yielded approximately 8.40% (before fees, non-taxable) which is derived from the combination of yields achieved by each stock held within the portfolio.

PORTFOLIO MANAGERS

Tania Miglietta
BBusSc (Finance), CFA

Tania joined Coronation as money market portfolio manager in December 2002. Prior to this she worked at Investec Asset Management for eight years, where she headed up Money Market Portfolio Management. At Coronation, Tania is responsible for the management of all money market and income funds and co-manages the Coronation Strategic Income Fund. Tania is a member of Coronation's credit committee and plays an active role in fixed interest business development.

Godwill Chahwahwa
BCompt; CA (SA)

Before joining Coronation in 2003, Godwill completed his articles with Ernst & Young and worked for two years as an audit manager with Moores Rowland CA. He is an investment analyst and co-manager of the Coronation Preference Share Fund.