

The Coronation Balanced Fund generated a return of 1.1% for the quarter. For the 12 months to 30 June 2006 the fund returned 33.7%, underperforming the benchmark return of 36.4%. However, over a rolling 3 year period, the fund strongly outperformed the benchmark with a return of 33.0%, as against 30.8%.

Emerging Markets experienced a sell-off in May when the Fed responded to data releases showing an up-tick in inflation with hawkish commentary indicating that interest rates would be increased further. This precipitated a global re-pricing of risk, with the Morgan Stanley Emerging Market Index declining by 17% from its high and the Morgan Stanley Commodity Index by 20%. In our view, these developments are not necessarily unhealthy. Excess liquidity is being taken out of the system and global risk appetite is returning to more normal levels. This should assist in 'reigning in' global imbalances and strengthening the foundations of the improved economic performance we are currently seeing from previous laggards Europe and Japan. In this uncertain environment, two things that do require careful attention are 1) how the US housing market responds to higher interest rates and 2) whether inflation increases materially from current low levels or not. Low inflation, despite strong economic growth, has been at the heart of the 'goldilocks' economy because it has smoothed out the cycle and allowed central bankers to keep interest rates low. Financial assets have appreciated strongly in this environment and any breakdown in the cycle would be negative.

In the local market, the rand declined to levels we consider to be much closer to fair value. We have long warned that the rand was overvalued and that investors had a unique opportunity to diversify their assets. The decline in the rand should be positive because it will help restore some balance to the economy by making general industry (producers) more competitive. We hold significant positions in local manufacturers and exporters that will benefit from a weaker rand. Holdings in stocks such as AECI, Delta and Oceana will demonstrate their leverage to a weaker rand over time. Higher interest rates will also force some restraint on the consumer. This would not be a bad thing. The risk lies in a heavy-handed response from the Reserve Bank, although we expect a more modest response (with the lessons from the interest rate response in 1998 still fresh in the minds of all concerned).

Local equities remain our preferred asset class in the domestic universe. Bonds and Property, priced for perfection only a few months ago, have sold off materially and we have increased our weightings in both asset classes.

Looking at the underlying sectors, Resources returned 21% in the quarter - a significantly better performance than Financials and Industrials which both returned a negative 5%. Commodities sold off less than we expected and rand weakness then supported the sector. We continue to hold big positions in Impala and Sasol, both of which contributed to performance in the quarter. We expect the inevitable supply response to high commodity prices to be more muted in platinum and oil and believe that the rand gearing in these companies will be positive when the commodity cycle eventually turns. We have increased our position in Mittal, which offers good upside despite our conservative assumptions on long term steel prices. Mittal is also one of the less obvious beneficiaries of the government's GDFI programme, with sales in the local market netting \$100 a ton more than exports.

Industrials performed poorly over the period. AECI, Netcare and Omnia contributed to performance while Woolworths, Edcon and ABSA detracted. The local sell-off was fairly indiscriminate, with our holdings in defensive counters like Tiger Brands and Woolworths declining almost as much as the more interest rate sensitive cyclical counters. We used the weakness to increase our holdings in MTN, Woolworths and Mr Price at attractive prices. Financials also performed poorly. We increased our holdings in FirstRand and ABSA, despite the deterioration in the outlook for interest rates. Banks have shown their resilience through the cycle over long periods of time and we consider them to be more defensive than the credit retailers. We continue to build on our positions in Liberty and Discovery, two companies that have not been given due recognition by the market for their good long-term growth prospects.

Bonds and Property had a negative quarter returning minus 4% and minus 14% respectively. The sell-off in these assets is of some comfort to us, given our conviction that they were overvalued. We used the sell-off to buy property stocks for the first time in a long time and increase both our weighting and duration in bonds.

**Louis Stassen & Karl Leinberger**  
Portfolio Managers

|                              |   |
|------------------------------|---|
| <b>Fund category</b>         | Domestic Asset Allocation<br>Prudential Medium Equity |
| <b>Launch date</b>           | 15 April 1996   |
| <b>Portfolio manager</b>     | Louis Stassen & Karl Leinberger                       |
| <b>Fund size</b>             | R1.3 billion  |
| <b>NAV</b>                   | 3621.01 cents   |
| <b>Annual management fee</b> | 1.25% (ex VAT)  |

|                         |  |
|-------------------------|--|
| <b>Benchmark</b>        | Composite benchmark<br>(63% equity, 22% bonds,<br>10% international, 5% cash)  |
| <b>Fund description</b> | A fully managed investment solution diversified across the various asset classes and sectors. Its asset allocation is compliant with Regulation 28 of the Pension Funds Act. |

## ASSET AND SECTOR ALLOCATION

| Sector                      | 30 Jun 2006   |
|-----------------------------|---------------|
| <b>Domestic Assets</b>      | <b>83.32%</b> |
| <b>Equity</b>               | <b>65.86%</b> |
| Oil & Gas                   | 5.35%         |
| Basic Materials             | 14.17%        |
| Industrials                 | 0.42%         |
| Consumer Goods              | 7.87%         |
| Healthcare                  | 0.80%         |
| Consumer Services           | 17.46%        |
| Telecommunications          | 3.97%         |
| Financials                  | 16.13%        |
| Technology                  | 0.10%         |
| Derivatives                 | (0.41%)       |
| <b>Real Estate</b>          | <b>1.61%</b>  |
| <b>Fixed Interest</b>       | <b>11.90%</b> |
| <b>Cash</b>                 | <b>3.95%</b>  |
| <b>International Assets</b> | <b>16.68%</b> |
| <b>Equity</b>               | <b>8.65%</b>  |
| <b>Cash</b>                 | <b>8.03%</b>  |

## TOP 10 HOLDINGS

| As at 30 June 2006                     | % of Fund     |
|--|---------------|
| Standard Bank Group Ltd                | 6.16%         |
| Naspers Ltd – N ordinary shares        | 5.62%         |
| Impala Platinum Holdings Ltd           | 5.53%         |
| Sasol Ltd                              | 5.35%         |
| Coronation Global Equity Fund of Funds | 4.20%         |
| Remgro Ltd                             | 3.33%         |
| Woolworths Ltd                         | 3.21%         |
| ABSA Group Ltd                         | 3.04%         |
| MTN Group Ltd                          | 2.39%         |
| Richemont Securities AG                | 2.34%         |
| <b>Total</b>                           | <b>41.17%</b> |

## INCOME DISTRIBUTIONS

| Declaration | Payment    | Amount | Dividend | Interest |
|-------------|------------|--------|----------|----------|
| 31/03/2006  | 01/04/2006 | 43.76  | 32.20    | 11.56    |
| 30/09/2005  | 01/10/2005 | 47.16  | 35.29    | 11.87    |
| 31/03/2005  | 01/04/2005 | 25.23  | 10.35    | 14.88    |
| 30/09/2004  | 01/10/2004 | 40.68  | 23.25    | 17.43    |

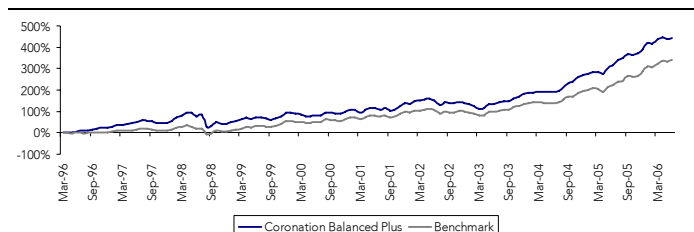
## MONTHLY PERFORMANCE RETURNS

|             | Jan   | Feb    | Mar    | Apr    | May    | Jun   | Jul   | Aug   | Sept  | Oct    | Nov   | Dec   |
|-------------|-------|--------|--------|--------|--------|-------|-------|-------|-------|--------|-------|-------|
| Fund 2006   | 6.22% | -1.10% | 4.06%  | 2.13%  | -2.12% | 1.13% |       |       |       |        |       |       |
| B'mark 2006 | 6.13% | -1.74% | 4.68%  | 2.99%  | -0.95% | 1.79% |       |       |       |        |       |       |
| Fund 2005   | 1.24% | 2.58%  | -0.24% | -2.07% | 7.22%  | 2.58% | 6.69% | 1.94% | 3.79% | -0.60% | 2.09% | 5.61% |
| B'mark 2005 | 0.93% | 3.32%  | -1.66% | -3.10% | 7.40%  | 2.48% | 4.97% | 1.21% | 6.38% | -1.04% | 1.86% | 5.61% |

## PERFORMANCE AND RISK STATISTICS

|                                  | Fund    | Benchmark |
|----------------------------------|---------|-----------|
| Year to date                     | 10.51%  | 13.35%    |
| Latest 12 months                 | 33.69%  | 36.37%    |
| Latest 36 months (annualised)    | 33.00%  | 30.84%    |
| Latest 60 months (annualised)    | 20.58%  | 19.36%    |
| Since inception (annualised)     | 18.16%  | 15.69%    |
| Annual deviation since inception | 16.70%  | 15.00%    |
| Sharpe ratio                     | 0.34    | 0.21      |
| Maximum gain                     | 57.54%  | 29.32%    |
| Maximum drawdown                 | -29.84% | -23.24%   |
| Positive months                  | 67.48%  | 63.41%    |

## CUMULATIVE PERFORMANCE SINCE INCEPTION



## ANNUAL RETURNS SINCE INCEPTION

|      | Fund   | Benchmark | Active Return |
|------|--------|-----------|---------------|
| 2005 | 35.00% | 31.59%    | 3.41%         |
| 2004 | 32.01% | 26.41%    | 5.61%         |
| 2003 | 17.68% | 18.15%    | -0.47%        |
| 2002 | 0.26%  | -0.37%    | 0.63%         |
| 2001 | 20.28% | 21.48%    | -1.20%        |
| 2000 | 1.15%  | 5.30%     | -4.15%        |
| 1999 | 36.68% | 46.67%    | -9.99%        |
| 1998 | -1.51% | -3.15%    | 1.64%         |
| 1997 | 17.85% | 7.21%     | 10.64%        |