

Against the backdrop of a -6% return for the financial index, the Coronation Financial Fund returned -9.7% for the quarter. For the past 12 month period the fund has returned 25%, and over 3 years a compound return of 37%.

In the previous quarterly commentary we cautioned that the strong positive returns earned in the past two years were unlikely to be repeated. However, the pullback in share prices in the current period has been severe, and in our view excessively so. An almost 20% decline in the value of the rand in a period of increased emerging market aversion resulted in heavy selling of financial shares as many investors switched into rand-leveraged resource stocks. In addition, a 50 basis point repo rate increase by the SARB in early June led to an almost indiscriminate sell off of interest-rate sensitive stocks in our market, in particular the banks. The result of this is that only 3 genuinely "investable" stocks in our universe delivered a positive return for the quarter, and all three of these have rand hedge characteristics. The defensiveness of the life insurers was evident during this period of weakness – the life insurance index was down 2% for the quarter, against a 12% decline by the banks.

Periods of excessive or irrational price weakness of course provide the opportunity to accumulate mis-priced assets. This we did during the quarter: We have increased our positions in FirstRand, Old Mutual (which has provided some buffer against the weaker rand) and some of the smaller cap financial companies where we see value. Discovery is a share we wrote about in the previous quarter's commentary, and we have continued to add to our holding as our investment case for the company remains unchanged.

Our largest investment for the quarter was into Liberty (via Liberty Holdings). This is a company that generates a superior return on its embedded value, attracts net positive policyholder cashflows (not all that common amongst SA life insurers) and has an exceptionally strong distribution model that generates strong new business growth, yet trades at a discount to EV, and at close to an historic low price to EV multiple. We sit at our maximum permissible direct holding of Liberty Group in the fund, and therefore have used the opportunity of price weakness in the holding company to increase the fund's exposure to the group.

The fund's purchases were funded primarily through sales of Remgro and Liberty International – stocks that had performed well in the period, although with the benefit of hindsight we should have held on to these shares longer given the extent of currency weakness experienced.

At current levels we view the banks as inexpensive, trading on PE ratios of between 9 and 10 times next year's earnings and dividend yields above 4%. The defensive characteristics of the life insurers have, we think, been underappreciated by the market in the recent sell-off, and continue to offer attractive valuations.

Neville Chester & Neill Young
Portfolio Managers

Fund category	Domestic Equity Financial
Launch date	1 July 1998
Portfolio manager	Neville Chester & Neill Young
Fund size	R816.9 million
NAV	2076.54 cents
Annual management fee	1.25% (ex VAT)

Benchmark	FTSE/JSE Africa Financial Index
Fund description	Invests in a broad range of financial shares, including banks, insurance and investment companies.

ASSET AND SECTOR ALLOCATION

Sector	30 Jun 2006
Domestic Assets	100.00%
Equity	99.33%
Financials	99.33%
Preference Shares & Other Securities	0.12%
Real Estate	0.31%
Cash	0.24%
International Assets	0.00%

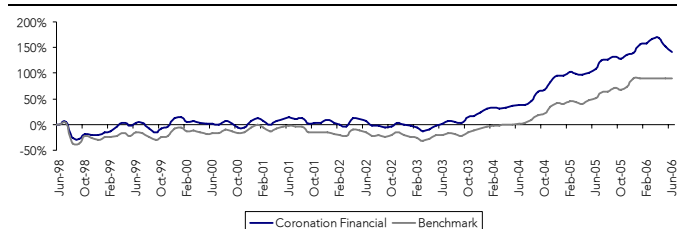
PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	0.84%	7.60%
Latest 12 months	25.03%	36.01%
Latest 36 months (annualised)	36.80%	36.67%
Latest 60 months (annualised)	17.67%	15.75%
Since inception (annualised)	12.66%	9.39%
Annual deviation since inception	22.30%	25.23%
Sharpe ratio	0.06	-0.08
Maximum gain	53.63%	80.40%
Maximum drawdown	-30.89%	-39.78%
Positive months	59.38%	60.42%

TOP 10 HOLDINGS

As at 30 June 2006	% of Fund
Standard Bank Group Ltd	21.62%
Liberty Group Ltd	18.90%
FirstRand Ltd	14.22%
Absa Group Ltd	10.84%
Discovery Holdings Ltd	9.89%
Metropolitan Holdings Ltd	7.22%
Old Mutual Plc	6.77%
Remgro Ltd	4.44%
Brait S.A.	1.12%
Sanlam Ltd	1.11%
Total	96.13%

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31/03/2006	01/04/2006	13.80	12.45	1.35
30/09/2005	01/10/2005	34.72	32.20	2.52
31/03/2005	01/04/2005	11.18	10.55	0.63
30/09/2004	01/10/2004	25.12	23.98	1.14

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	32.02%	34.69%	-2.67%
2004	57.09%	52.38%	4.71%
2003	25.19%	17.92%	7.28%
2002	-9.27%	-8.24%	-1.03%
2001	2.90%	-9.53%	12.43%
2000	-5.55%	2.93%	-8.48%
1999	42.51%	29.83%	12.68%
1998	-21.13%	-29.04%	7.91%

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2006	7.01%	0.60%	3.69%	0.43%	-5.96%	-4.35%						
B'mark 2006	7.74%	0.08%	6.19%	1.13%	-4.96%	-2.22%						
Fund 2005	0.30%	3.52%	-2.03%	-0.91%	2.54%	3.02%	8.57%	0.52%	2.04%	-1.46%	3.14%	9.55%
B'mark 2005	-0.44%	2.83%	-1.29%	-1.39%	4.45%	2.37%	7.76%	1.35%	3.58%	-1.29%	2.77%	10.16%