

Domestic listed property sold off heavily over the past quarter, declining by 19%. This wipes out all the gains of the year-to-date, with the return of the index over this period now standing at -1.3%. This decline was driven by a rapid rise in bond rates (over 100 basis points for the quarter) and also a significant de-rating of listed property yields relative to bonds. Bonds returned -3.6% over the quarter, and -1.3% in the year to date. The Coronation Property Equity fund was also heavily impacted, with a decline of 16.2% over the quarter; however the return for the 12 months to end June is an attractive 18.1%.

The catalyst for the sell-off was a dramatic reduction in emerging market risk appetite, resultant depreciation of the rand, and the first 50 basis point increase in interest rates announced by the SA Reserve Bank.

We did caution against over-valuation in the domestic property market and the risk of interest rate increases in our previous commentary, and as such the fund was more conservatively positioned at the start of the quarter, with 22% invested outside domestic listed property stocks.

The fund benefited from the investment of 10% (maximum permissible level) in Liberty International, which returned 15% over the past quarter, and 33% in the year-to-date. This illustrates the huge diversification benefits of holding this exposure within an otherwise very homogeneous universe. Although Liberty International was actually down in pound terms over the quarter, the depreciation in the rand more than offset this.

Going forward we believe that the recent sell-off was probably overdone in many stocks, and as such provides a buying opportunity. Towards the end of the quarter we increased the domestic listed property exposure in the fund to 88% (from 78%), mainly through purchases in Growthpoint, but also Hospitality A units and Redefine. There is a risk that unit trust redemptions could lead to further declines in share prices, and we have thus left further capacity in the fund to increase exposure in this event. The fundamentals for listed property have not changed materially, and distribution growth forecasts remain good. We are expecting 9.8% and 9.3% for the next two years respectively. Clean forward yields on listed property close to 9% compare more favourably now to alternatives such as bonds and cash. We think there is value selectively in mostly the larger market cap stocks currently. Premiums to NAV now also look more realistic. The sector premium is now around 33%. Allowing for a 15% to 20% premium of listed over physical, and the fact that physical valuations are still lagging actual market transactions also by around 15% to 20% from our management interactions, this seems closer to reality.

The interest rate cycle has however turned in our opinion. To the extent that the market is expecting this to be an isolated increase, we believe this is an overly optimistic assessment. We are expecting two further 50bps increases over the next year. While this is a net negative, we don't believe it materially changes growth prospects for the sector. The benefits of re-financing debt will however slow, and it is important to assess the impact it has had on distribution growth historically and going forward. Fundamental prospects for the sector as a whole remain positive though.

An important point is that we still believe there are huge rating disparities within the listed universe, and that many lower quality, smaller companies are trading at yields much too close to the better quality larger counters. This partly explains why we have not further increased listed property exposure. The recent sell-off has exacerbated this, as much of the investor selling has been in the more liquid counters by necessity. The most attractive counter in our universe is currently Grayprop, where we are already at maximum exposure. We have hence also substantially increased our exposure to Growthpoint as already mentioned. We remain invested in Liberty International close to the maximum 10%, and the past two months of weaker currency and declining domestic property prices has demonstrated its attraction as a diversifier exactly when you need it. We believe there is still 5% upside in pound terms, and the dividend growth prospects are looking favourable. REIT conversion now seems highly likely, and should benefit the company in the long term. The development pipeline remains very attractive and a driver of growth in the long term.

In summary we believe that, although painful, the recent decline in share prices was probably a necessary and healthy correction. The fund is utilising its flexibility, and is in a good position to capitalise on further price declines if they happen. We are exposed to the quality larger counters, and think this reduces the risk within the fund. We do not think investors need to panic, and in fact panic in the market and resultant selling would create some attractive buying opportunities from current levels for patient investors.

Edwin Schultz
Portfolio Manager

Fund category	Domestic Asset Allocation Flexible Property
Launch date	20 November 2000
Portfolio manager	Edwin Schultz
Fund size	R940.9 million
NAV	2108.27 cents
Annual management fee	1.25% (ex VAT)

Benchmark	Flexible Property Funds Mean
Fund description	Invests in quality listed property assets with the aim to produce high income yields and long-term capital growth.

ASSET AND SECTOR ALLOCATION

Sector	30 Jun 2006
Domestic Assets	100.00%
Preference Shares & Other Securities	2.04%
Real Estate	96.88%
Cash	1.08%
International Assets	0.00%

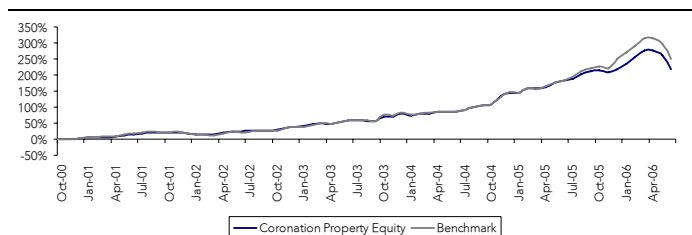
PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	-0.26%	-0.24%
Latest 12 months	18.10%	23.13%
Latest 36 months (annualised)	27.82%	29.93%
Latest 60 months (annualised)	23.63%	24.42%
Since inception (annualised)	23.62%	24.66%
Annual deviation since inception	11.67%	12.63%
Sharpe ratio	1.18	1.17
Maximum gain	40.44%	33.80%
Maximum drawdown	-16.18%	-15.99%
Positive months	73.53%	69.12%

TOP 10 HOLDINGS

As at 30 June 2006	% of Fund
Growthpoint Properties Ltd	17.56%
Allan Gray Property Trust Ltd	14.94%
Hyprop Investments Ltd	14.47%
Apexhi "A"	10.63%
Syfrets and CU Property Fund	10.39%
Liberty International Plc	8.21%
Resilient Property Income Fund	6.11%
Accucap Properties Ltd	4.80%
Hospitality Property Fund	3.36%
Redefine Income Fund	2.37%
Total	92.84%

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/06/2006	01/07/2006	29.13	2.59	26.54
31/03/2006	01/04/2006	26.93	5.12	21.81
31/12/2005	01/01/2006	24.71	0.83	23.88
30/09/2005	01/10/2005	11.93	1.36	10.57

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	36.69%	42.07%	-5.38%
2004	35.27%	35.00%	0.27%
2003	30.11%	33.39%	-3.29%
2002	17.91%	16.71%	1.20%
2001	14.99%	14.02%	0.97%
2000	2.20%	2.66%	-0.46%

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2006	5.73%	5.98%	6.20%	-0.22%	-4.15%	-12.36%						
B'mark 2006	5.51%	6.07%	6.10%	-0.14%	-4.14%	-12.24%						
Fund 2005	0.68%	5.25%	-0.06%	1.45%	5.22%	2.12%	2.66%	4.88%	2.41%	1.32%	-1.44%	7.53%
B'mark 2005	-0.57%	6.08%	-1.17%	2.84%	4.48%	2.77%	3.39%	6.14%	2.61%	2.39%	-1.98%	9.20%