

"Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they recover their senses slowly, and one by one." - Charles MacKay; Extraordinary Popular Delusions and the Madness of Crowds

The Coronation Industrial Fund returned 11.99% for the quarter, versus 12.85% for the benchmark. For the 12-months to March the returns of the fund and the benchmark respectively were 51.11% and 52.59%. For the three-year period to end March the annualised returns, in the same order, were 50.4% and 51.1%.

Two insights from these numbers are obvious. The first is that once again we have seen a "year's worth of returns" delivered in a quarter. As before, we caution investors not to think that 50% annual returns are normal, especially not after three years of such returns. The second ties in with the first. Once again the fund has underperformed the index. It is not managed with reference to the index as a benchmark; indeed given our concern with the valuation levels of many benchmark stocks we continue to ignore the benchmark with gay abandon. As discussed below, our stance from here is a cautious one, and capital preservation an ever greater consideration.

The last quarter of 2005 saw a significant acceleration in the purchase of SA equities by global emerging market investors. This trend intensified in the first quarter of 2006. SA equities, long the underweight in emerging market benchmark portfolios, saw unprecedented foreign buying: to the extent that the underweight position has been normalised to an on-weight situation. At the same time, emerging market funds themselves enjoyed very strong inflows. To give an idea of the scale, the inflows into these funds in the first 11 weeks of 2006 were equal to those of the entire 2005. This placed SA equities in the "sweet spot" of being the favoured destination in an increasing stream of capital flows. This is what pushed the index to all-time highs.

It is not for us to comment on the acumen of our global industry colleagues. Their present actions confirm our past experience of their style: they like to use the shotgun rather than the rifle. Favoured themes among foreign investors have been fixed investment stocks, consumer plays and banks. The valuations of the usual suspects (those old favourites the foreign investors have traditionally liked) have sky rocketed. Observing these events with a touch of detached distaste, we note the undignified motions of a feeding frenzy. The memory of the IT boom (and bust) are fresh in our memory, as they should be in yours. The EM boom has all the signs of a similar, familiar trajectory: one described by Mr Isaac Newton. What goes up, must come down. The madness of crowds is with us yet again.

Nowhere is this madness illustrated more vividly than by the ridiculous prices currently being paid for construction stocks such as Murray & Roberts and Aveng. Like all companies, these have their right price; we have indeed held them from time to time. Knowing these companies as well as we do, we cannot but point out that construction is an industry with poor fundamentals. Contracting earnings are notably volatile, difficult to forecast and prone to subjective accounting recognition. The sector's earnings track record is chequered. Even global precedent offers little comfort. In Greece and Australia construction groups failed to increase their returns despite the Olympics.

Average global industry margins are around 1.5%, while our stocks now price in margins of 5% to 6%; and this forecast earnings base is valued at a premium to our market. Foreign shareholding in these companies, from a zero base, is now about a third of the equity, all on the well-flagged promise of massive construction spend.

The only new stock we acquired during the quarter was Mittal Steel. We believe that fundamentals in the global steel industry have improved to the extent that the mid-cycle steel price in coming cycles will be higher than in the past. This is largely due to a combination of supply-side consolidation (and hence production restraint) and continued demand from China, whose own production will not be as disruptive as initially feared. Much of construction is steel-intensive. We expect Mittal SA to be a better way to play the local fixed investment cycle than the construction stocks. Present negative news flow regarding competition issues provides an opportunity to establish a position in this counter at a single-digit PE on normal earnings, and with a possible minority offer in future, underpinning downside risk.

For the second quarter in a row we sold a stock we had bought only the quarter before; this time Afrox. We liked the investment for its defensive characteristics and bought it despite an already steamy rating. This became even steamier when, on the back of corporate activity relating to BOC, Afrox's parent company in Europe, the local subsidiary rerated yet further. The valuation now left no room for error, and we exited with a reasonable return.

The strong market run saw two other turnaround plays run ahead of fundamentals. One was Afgri. We sold in the belief that the margin of safety was getting too thin. The quarter also saw us give up on New Clicks, a stock we had doggedly held through thick and (especially) thin. The corporate turnaround here is indeed happening, if more slowly than we had hoped. The price at which we sold no longer adequately discounted the hard road that still lies ahead for this group.

It is tough in times like these when the shares one does not own, are pushed beyond their rational value by momentum factors. We do not intend to hold equities where we cannot justify the valuation to ourselves, even while momentum continues. This may cause some short-term underperformance. As stock pickers, we relish the opportunities that present themselves when theme investors move the market on a large scale. Overlooked equities in a market like this often offer much better long-term value. We reiterate our previous warnings: in a market that has doubled, we need to concern ourselves primarily with capital preservation. Given that prospective returns can surely not be as good as those of the recent past, our selection of defensive equities, each with an individually well motivated value proposition, makes us sleep well.

"All our sins come from sloth and impatience, and sloth comes from impatience," said Franz Kafka. With due modesty, sloth is not one of our failings. In what we see as an increasingly polarised market, we own reasonably priced investment ideas. We remain patient, confident that our views will prevail.

Dirk Kotzé & Pallavi Ambekar
Portfolio Managers

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|-----------------------|------------------------------|
| Fund category | Domestic Equity Industrial |
| Launch date | 1 July 1998 |
| Portfolio manager | Dirk Kotzé & Pallavi Ambekar |
| Fund size | R83.5 million |
| NAV | 3783.43 cents |
| Annual management fee | 1.00% (ex VAT) |

| | |
|-------------------------|---|
| Benchmark | FTSE/JSE Africa Industrial Index |
| Fund description | Invests in a broad range of domestic industrial shares. |

ASSET AND SECTOR ALLOCATION

| Sector | 31 Mar 2006 |
|-----------------------------|----------------|
| Domestic Assets | 100.00% |
| Equity | 98.56% |
| Basic Materials | 10.33% |
| Industrials | 3.71% |
| Consumer Goods | 20.25% |
| Consumer Services | 55.12% |
| Telecommunications | 3.02% |
| Financials | 6.13% |
| Cash | 1.44% |
| International Assets | 0.00% |

TOP 10 SHARE HOLDINGS

| As at 31 March 2006 | % of Fund |
|---------------------------------|---------------|
| Naspers Ltd – N ordinary shares | 8.37% |
| Remgro Ltd | 6.13% |
| Woolworths Ltd | 5.64% |
| Mr Price Group Ltd | 5.47% |
| SABMiller plc | 4.65% |
| Famous Brands Ltd | 4.55% |
| Edgars Consolidated Stores Ltd | 4.34% |
| AECI Ltd | 4.18% |
| Bidvest Group Ltd | 4.18% |
| Pick 'n Pay Stores Ltd | 4.11% |
| Total | 51.62% |

INCOME DISTRIBUTIONS

| Declaration | Payment | Amount | Dividend | Interest |
|-------------|------------|--------|----------|----------|
| 31/03/2006 | 01/04/2006 | 42.71 | 40.74 | 1.97 |
| 30/09/2005 | 01/10/2005 | 36.67 | 36.67 | 0.00 |
| 31/03/2005 | 01/04/2005 | 26.35 | 25.52 | 0.83 |
| 30/09/2004 | 01/10/2004 | 14.97 | 13.50 | 1.47 |

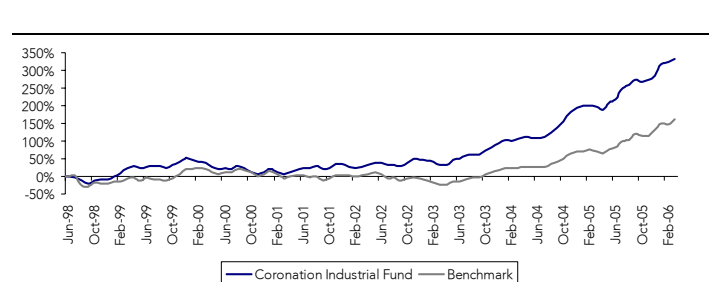
PERFORMANCE RETURNS

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sept | Oct | Nov | Dec | YTD |
|-------------|-------|--------|--------|--------|-------|-------|--------|-------|-------|--------|-------|-------|--------|
| Fund 2006 | 8.29% | 1.23% | 2.16% | | | | | | | | | | 11.99% |
| B'mark 2006 | 7.40% | -0.70% | 5.82% | | | | | | | | | | 12.85% |
| Fund 2005 | 1.26% | 0.15% | -1.32% | -2.48% | 6.82% | 2.95% | 10.56% | 2.55% | 3.47% | -1.41% | 1.46% | 7.22% | 35.03% |
| B'mark 2005 | 0.21% | 2.18% | -2.16% | -4.46% | 7.51% | 3.86% | 8.96% | 1.67% | 8.23% | -2.56% | 0.86% | 7.58% | 35.46% |

PERFORMANCE AND RISK STATISTICS

| | Fund | Benchmark |
|----------------------------------|---------|-----------|
| Latest 12 months | 51.11% | 52.39% |
| Latest 36 months (annualised) | 50.41% | 51.16% |
| Latest 60 months (annualised) | 33.14% | 22.99% |
| Since inception (annualised) | 21.31% | 13.20% |
| Annual deviation since inception | 17.97% | 22.54% |
| Sharpe ratio | 0.55 | 0.08 |
| Maximum gain | 55.54% | 61.72% |
| Maximum drawdown | -21.40% | -29.29% |
| Positive months | 63.44% | 64.52% |

CUMULATIVE PERFORMANCE SINCE INCEPTION



ANNUAL RETURNS SINCE INCEPTION

| | Fund | Benchmark | Active Return |
|------|---------|-----------|---------------|
| 2005 | 35.03% | 35.46% | -0.42% |
| 2004 | 53.35% | 46.59% | 6.76% |
| 2003 | 32.27% | 25.24% | 7.03% |
| 2002 | 8.15% | -10.37% | 18.51% |
| 2001 | 20.06% | -2.20% | 22.26% |
| 2000 | -26.27% | -10.82% | -15.46% |
| 1999 | 67.70% | 50.17% | 17.53% |
| 1998 | -9.24% | -20.66% | 11.42% |