

"Our feeling is that while 2006 might not be as good as 2005 (the Coronation Smaller Companies Fund returned approximately 30%), the fund should continue to deliver real returns."

This was what we said in the December 2005 fund commentary. In the first quarter of 2006, the fund returned 16.67%, certainly exceeding our return expectations. Part of what seems to be driving this growth is foreign buying which seems to have spilled over into non-Top 40 shares. This is both encouraging and worrisome as foreign emerging market investors seem willing to divest as quickly as they invested.

The fund trades on a one-year forward PE multiple of 10.3, higher than it has been for about five years, but still significantly lower than our estimate of the overall market's forward PE of 13. Consequently we remain confident that the fund should outperform the overall market, except in the event of a sharp depreciation of the rand which would benefit the Top 40 shares to a larger degree than small and mid cap shares.

During the quarter, our more significant purchases included Distell, Astral Foods and Pick 'n Pay Holdings.

Distell is a tightly held company with a free float of only 10%. We believe that this is the primary reason why this company has not attracted much investor attention and hence, a correct rating. The defensive nature of alcoholic beverage sales together with a strong portfolio of brands, in our view, justifies a premium rating relative to the market. However, Distell currently trades at a discount. The JSE requires a minimum 20% free float and we therefore believe that Distell will ultimately need to review its shareholding structure in order to improve liquidity in the stock. This could be a catalyst for a re-rating of this company.

While our purchase of Astral Foods is probably late in the cycle, we could no longer ignore the fantastic earnings growth that this company looks set to produce, driven by strong demand for chicken and maize prices below normal levels. Even if we normalise earnings by assuming a higher maize price, we still believe we have not paid more than eight or nine times earnings to acquire our position.

Pick 'n Pay Holdings is the investment holding company of Pick 'n Pay Stores, arguably one of the top five companies in South Africa in terms of the stability of its earnings stream, high returns on equity and its ability to generate cash (and pay it out to shareholders). It is a company that normally trades at approximately a 30% premium to the average listed company, but currently trades at a much lower premium. At this stage of the equity bull run we are happy to invest in superior quality companies with defensive earnings. Pick 'n Pay Holdings provides this entry point.

Our more significant sales during the quarter included Tanzanite One, New Clicks and Enaleni Pharmaceuticals.

Tanzanite One has been a phenomenal holding for the fund, increasing some five-fold in a year and a half. It is a fantastic story – the business owns 60% of the world's only known source of Tanzanite, a gem 1 000 times rarer than diamonds. We have done well from our investment in Tanzanite, but on a PE multiple of approximately 30, we cannot justify holding it any longer.

New Clicks is a business that we believe will continue to struggle for the next few years, but whose share price has performed well in the past six months. We think that the margin of safety that existed is no longer there and we have sold our position.

We participated in the placing of Enaleni shares at R3.00 when it acquired Cipla Medpro. The share price was very strong post the share issue, rising to R4.50 in a very short space of time, and above our assessment of fair value. Consequently we have sold our holding in the company.

Alistair Lea
Portfolio Manager

Fund category	Domestic Equity Smaller Companies
Launch date	1 April 1997
Portfolio manager	Alistair Lea
Fund size	R147.1 million
NAV	3139.70 cents
Annual management fee	1.00% (ex VAT)

Benchmark	Composite benchmark: FTSE/JSE Africa Mid & Small Cap Indices
Fund description	Invests in small and mid capitalisation companies, developing industries and recovery shares.

ASSET AND SECTOR ALLOCATION

Sector	31 Mar 2006
Domestic Assets	100.00%
Equity	96.70%
Basic Materials	14.46%
Industrials	11.04%
Consumer Goods	18.56%
Consumer Services	46.34%
Financials	0.70%
Technology	5.60%
Real Estate	1.57%
Cash	1.73%
International Assets	0.00%

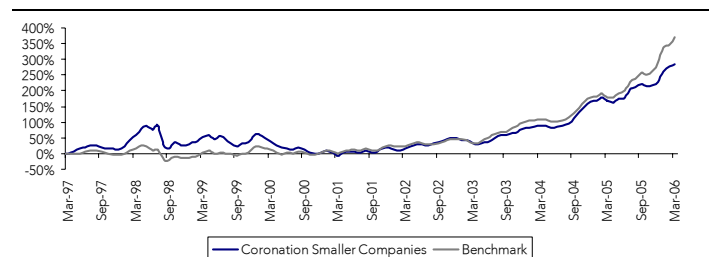
PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Latest 12 months	44.68%	68.59%
Latest 36 months (annualised)	43.20%	52.16%
Latest 60 months (annualised)	32.95%	36.28%
Since inception (annualised)	16.30%	18.80%
Annual deviation since inception	23.71%	19.94%
Sharpe ratio	0.18	0.33
Maximum gain	67.21%	43.41%
Maximum drawdown	-37.63%	-30.55%
Positive months	62.96%	62.04%

TOP 10 SHARE HOLDINGS

As at 31 March 2006	% of Fund
Mobile Industries Ltd	7.24%
Eland Platinum Holdings	4.05%
AVI Limited	3.88%
Famous Brands Ltd	3.82%
Value Group Ltd	3.65%
Tiger Wheels Ltd	3.59%
Omnia Holdings Ltd	3.59%
Primedia Ltd – N ordinary shares	3.57%
Group Five Ltd	3.47%
Tanzanite One Group Ltd	3.44%
Total	40.30%

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31/03/2006	01/04/2006	47.09	44.28	2.81
30/09/2005	01/10/2005	19.43	17.36	2.07
31/03/2005	01/04/2005	28.63	24.88	3.75
30/09/2004	01/10/2004	25.11	20.85	4.26

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	25.94%	41.37%	-15.43%
2004	48.14%	38.62%	9.52%
2003	20.64%	36.35%	-15.71%
2002	24.03%	16.86%	7.17%
2001	15.91%	22.82%	-6.91%
2000	-33.41%	-13.56%	-19.85%
1999	21.50%	36.96%	-15.46%
1998	13.19%	-9.36%	22.55%
1997	12.62%	-4.78%	17.40%

PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
Fund 2006	9.60%	4.83%	1.55%										16.67%
B'mark 2006	11.23%	2.69%	5.34%										20.32%
Fund 2005	0.93%	3.79%	3.05%	2.85%	4.70%	2.12%	9.28%	1.94%	3.01%	1.44%	0.97%	4.54%	25.94%
B'mark 2005	1.52%	3.03%	3.53%	0.76%	5.34%	2.76%	8.94%	3.06%	5.87%	1.72%	3.47%	7.92%	41.37%