

The 3rd quarter was characterised by a sudden cooling in the rampant commodity market and a dramatic sell off in the Rand. While the slowdown in the commodity market has always been our view, and is reflected as much in the portfolio, the Rand weakness, which has occurred independent of other currencies, has in our view been excessive and resulted in the continued outperformance of a number of currency geared resource shares as well as the dual listed shares. There has however also been some measure of bounce back in the domestic equity sector as the 'wheels off' scenario which was priced in during May/June has started to normalise as market participants have realised that the underlying economy remains strong.

The equity fund which has continued to be positioned for the down cycle in commodities, struggled in the quarter due to the weaker Rand (which declined some 15%) during the quarter. It was gratifying to see some of our domestic positions start to pay off as well as portfolio stalwarts such as Remgro and Richemont come through nicely. The equity fund returned 5.14% for the quarter compared to the benchmark of 6.40%. This did still vindicate our view of favouring equities despite the volatility of the previous quarter.

There has without a doubt been much concern expressed over the outlook for the SA economy as we have moved into this rising interest rate environment. Clearly the tightening bias at the SARB has been focused on reigning in the rampant consumer spend evidenced over the past few quarters. The strategy is not however to bring the economy to a screeching halt but merely to slow the excesses and by doing so to relieve the pressure on the current account.

In this scenario we believe the prices of domestic equities looks particularly attractive. By valuing businesses on realistic assumptions (not the boom times of the past few years) it is evident to us that there is significant upside in the domestic equity market. Why is this so? We believe overly pessimistic assumptions of the impact of the tightening cycle, coupled with very short term earnings outlook has created an environment where investors have exited rapidly from these shares. Limited liquidity as well as some negative news flow (SARB 'talking the market down', initial draconian proposals on Chinese imports etc) impacted on the price movements further. As a long term investor we characterise a lot of this as 'noise' which can easily distract momentum investors. At Coronation we try to look through the short term distractions and identify what businesses are worth through a cycle. Regulation will come and go. Interest rates will rise and fall, predicting these are difficult, predicting what businesses will earn over time is far more practical.

The net result is a portfolio of strong cash generative businesses which we believe are either well positioned to continue with strong growth in earnings, or are currently being viewed so negatively as to discount the worst possible outcome over the next few years. This creates a margin of safety which provides for great upside and the ability to ride through any short term cyclical volatility. The overall forward PE of the fund is 11.4 and the forward dividend yield 4.3%, great indicators of the attractive valuations.

**Neville Chester**  
**Portfolio Manager**

Fund category	Domestic Equity General
Launch date	15 April 1996
Portfolio manager	Neville Chester
Fund size	R1.5 billion
NAV	5082.98 cents
Annual management fee	1.25% (ex VAT)

Benchmark	FTSE/JSE Shareholder Weighted All Share Index
Fund description	An emphasis on active stock selection and will remain fully invested in domestic equities at all times.

## EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2006
<b>Domestic Assets</b>	<b>100.00%</b>
<b>Equity</b>	<b>98.42%</b>
Oil & Gas	7.19%
Basic Materials	18.51%
Industrials	0.49%
Consumer Goods	9.73%
Healthcare	0.70%
Consumer Services	30.43%
Telecommunications	6.69%
Financials	24.68%
<b>Cash</b>	<b>1.58%</b>
<b>International Assets</b>	<b>0.00%</b>

## TOP 10 HOLDINGS

As at 30 September 2006	% of Fund
Standard Bank Group Ltd	8.83%
Sasol Ltd	7.19%
Naspers Ltd – N ordinary shares	6.89%
Impala Platinum Holdings Ltd	6.11%
BHP Billiton Plc	5.55%
Richemont Securities AG	4.66%
Woolworths Ltd	4.62%
Remgro Ltd	4.46%
Edgars Consolidated Stores Ltd	3.96%
MTN Group Ltd	3.94%
<b>Total</b>	<b>56.21%</b>

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2006	01/10/2006	77.65	76.61	1.04
31/03/2006	01/04/2006	59.63	58.09	1.54
30/09/2005	01/10/2005	72.44	69.72	2.72
31/03/2005	01/04/2005	26.89	24.59	2.30

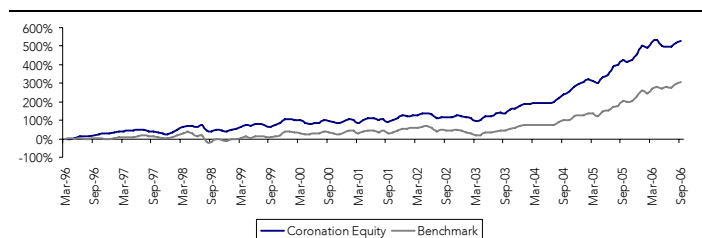
## MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2006	8.44%	-1.14%	4.59%	1.97%	-5.11%	-0.38%	-0.10%	3.44%	1.74%			
B'mark 2006	9.07%	-2.31%	6.94%	2.64%	-4.46%	1.53%	-0.86%	5.12%	2.09%			
Fund 2005	2.09%	4.21%	-2.31%	-2.36%	7.10%	3.55%	9.62%	2.17%	4.98%	-1.82%	2.07%	7.12%
B'mark 2005	0.78%	4.26%	-0.88%	-4.98%	9.63%	3.06%	7.19%	2.11%	9.82%	-2.46%	2.18%	8.13%

## PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	13.63%	20.70%
Latest 12 months	21.98%	30.08%
Latest 36 months (annualised)	39.33%	40.33%
Latest 60 months (annualised)	27.27%	25.34%
Since inception (annualised)	19.44%	13.90%
Annual deviation since inception	16.63%	21.07%
Sharpe ratio	0.43	0.07
Maximum gain	47.40%	37.58%
Maximum drawdown	-20.49%	-31.55%
Positive months	64.80%	60.00%

## CUMULATIVE PERFORMANCE SINCE INCEPTION



## ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	42.04%	44.86%	-2.82%
2004	42.87%	33.90%	8.98%
2003	25.33%	18.24%	7.08%
2002	-2.90%	-8.55%	5.65%
2001	16.41%	15.91%	0.50%
2000	-4.76%	-1.99%	-2.77%
1999	45.92%	53.25%	-7.33%
1998	12.24%	-11.32%	23.59%
1997	-1.91%	1.39%	-3.31%