

The Coronation Optimum Growth Fund appreciated by 23.1% for the first 9 months of 2006 and 28.2% for the year to end September, which is well ahead of its target of inflation plus 5%. The primary drivers of this return have been relatively high allocation of capital to equities, strong performance from individual stock positions, particularly the international stocks, and the depreciation of the rand. Over the past 5 years the fund has produced an average annual return of 19.7%.

The rand has now depreciated by 25% against the dollar this year and as a result the decision earlier in the year to increase offshore exposure to 60% from a level of just under 50% continued to benefit the fund. The other large decision that was taken over the past several months was to increase the overall equity exposure of the fund (from 68% in March to around 84% in September), as a result of the view that we were finding very attractively valued stocks, particularly internationally.

The global market sell-off in May and June provided a great opportunity to establish new positions and these purchases have started to bear fruit, with strong performers including NYSE Group (+18% since purchase in May), MTS (+26% since purchase) and Turkcell (+24% since purchase). In addition to this, our patience with one of the fund's larger international positions, Harley Davidson, started to be rewarded with the stock appreciating by 25% over the past few months driven by very good reported results. More recently, the fund's long-held telecommunications position has started to contribute with strong double-digit gains from France Telecom, Telefonica and Vodafone. Whilst telecommunications stocks globally have been out of favour by investors, our view has been, and continues to be, that they are very attractively valued (typically single digit free cash flow multiples) and that the market is pricing in very pessimistic assumptions with regards to both the fixed-line and mobile businesses. These stocks also offer very attractive dividend yields, with France Telecom (7% yield) and Telefonica (5% yield) being particularly appealing in this regard, given European cash rates of 3% or less.

Over the past few months we added a few new names to the portfolio with the larger new positions being Netcare (South Africa), Edcon (South Africa), BHP Billiton (South Africa) Nasdaq Stock Market (US), Seat Pagine Gialle (Italy) and Legg Mason (US).

Netcare was by far the single largest purchase over the past few months (3.6% of fund). It is our view that the purchase of a majority stake in the UK hospital group, GHG, transforms the business and is a very good deal for Netcare. There is significant opportunity in the UK healthcare market (ageing population, NHS outsourcing trends, inefficient utilisation of capacity) and we have high regard for the Netcare management team and their ability to capitalise on these opportunities. The transaction is geared, and as such is not without risk, but we believe that this risk is manageable.

The market continues to be extremely short-term focused with regards to the South African interest rate sensitive shares (retailers and banks), with the result that many of these shares have declined by 20% or 30% over the past few months, Edcon being just one example. We are not particularly interested in what the earnings of Edcon over the next 6 or 12 months are likely to do: what we are very interested in is what the earnings of Edcon are likely to do over the next 5 or 10 years and what price we pay for a stake in this business today. The fund bought Edcon at a share price of R26 on a historic P/E of 9 and historic dividend yield of over 6%. Whilst it may not seem to make sense to buy Edcon today with all the bad news about depreciating currency, rising inflation and interest rates and consumer debt levels, we are strongly of the view that it is impossible to time markets and we would rather concern ourselves with making sure that we are buying significantly undervalued assets, irrespective of the short-term outlook.

Only time will tell whether the investor who was focusing on the next 6 months and sold Edcon to us at R26 is right or we are right. The purchase of a 1% position in BHP Billiton was predominantly a hedge against the implied BHP Billiton short position embedded in fund's short ALSI Futures position.

Stock exchanges are great businesses: they have dominant or monopolistic positions (depending on the country), significant positive operational gearing over long periods of time and are great free cash flow generators. In South Africa it is possible to invest in only 1 stock exchange (JSE Ltd) but internationally there are 20 listed stock exchanges. Many of these exchanges are highly rated, we have however been able to find a few that we believe offer good value. The fund bought a position in the New York Stock Exchange Group in May (2.4% of fund) and then more recently also established a position in the Nasdaq Stock Exchange (1.2% of fund). In early October we added to the small position in the JSE Ltd and this is now a 1% position. We are currently looking at adding a 4th exchange to the portfolio.

Seat Pagine Gialle is an Italian directories business (the equivalent of Telkom's white and yellow pages directories business). There are challenges facing the company, including the threat of internet and high debt levels. It is our view however that these challenges are more than priced into the share: the company will generate around EUR 400m of Free Cash Flow this year and has a market capitalisation of around EUR 3 billion, meaning that it is trading on a very appealing free cash flow multiple of just over 7.

Legg Mason is a US asset management group who owns several value-orientated asset managers including the Bill Miller Value Trust franchise, Brandywine, Batterymarch and Royce. The share has declined significantly over the past few months as a result of short-term net outflows and concerns over the integration of the Citigroup asset management business. Whilst some of these concerns are justified, the market appears to be placing excessive emphasis on what are shorter-term issues. Asset management is a business that we know and understand well and we hold the view that a good asset manager has a very attractive business model. We believe Legg Mason owns several good asset managers and after the recent share price decline we were able to buy the share on a very reasonable cash earnings multiple.

Whilst we have reduced the fund's equity exposure slightly in the early weeks of October (from 84% to 79%) we continue to hold the view that there are many stocks that are very attractively valued and as a result we are comfortable with the fund's relatively high equity exposure. The fund is now 62% invested offshore and 38% in South Africa, with 51% of the fund being invested in international equities and 33% in South African equities. We do not, at this point, intend to take more of the fund's cash offshore as we hold the view that there is substantial upside to several of the fund's South African equity holdings. In addition to this, whilst we have no idea what the exchange rate will do over the short or medium term, the recent movement in the rand does appear to be extreme and not entirely explained by fundamentals, not dissimilar to what happened in late 2001.

**Gavin Joubert**  
Portfolio Manager

Fund category	Worldwide Asset Allocation Flexible
Launch date	15 March 1999
Portfolio manager	Gavin Joubert
Fund size	R941.5 million
NAV	3424.14 cents
Annual management fee	1.00% (ex VAT)
Performance fee	15% ex VAT (above hurdle, capped at 2,5% p.a.)

Benchmark	CPIX
Performance fee hurdle	CPIX + 5%
Fund description	Aims to deliver long-term growth by investing in a combination of local and international investments across all asset classes.

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2006
<b>Domestic Assets</b>	<b>38.12%</b>
<b>Equity</b>	<b>32.98%</b>
Basic Materials	3.25%
Consumer Goods	2.67%
Healthcare	3.66%
Consumer Services	15.76%
Telecommunications	3.73%
Financials	7.98%
Derivatives	(4.07%)
<b>Cash</b>	<b>5.14%</b>
<b>International Assets</b>	<b>61.88%</b>
<b>Equity</b>	<b>51.66%</b>
<b>Fixed Interest</b>	<b>4.16%</b>
<b>Cash</b>	<b>6.06%</b>

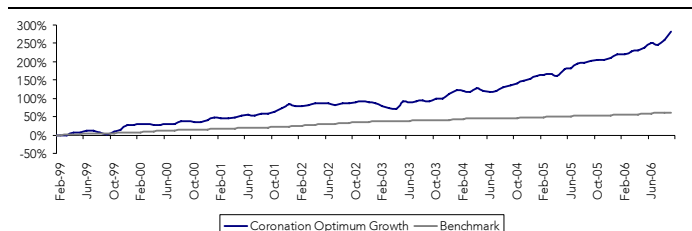
### PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	23.10%	4.74%
Latest 12 months	28.21%	4.97%
Latest 36 months (annualised)	26.33%	4.46%
Latest 60 months (annualised)	19.74%	5.82%
Since inception (annualised)	20.02%	6.33%
Annual deviation since inception	10.84%	1.39%
Downside deviation	5.53%	0.39%
Sharpe ratio	0.87	N/A
Maximum gain	28.71%	N/A
Maximum drawdown	-11.72%	N/A
Positive months	71.11%	N/A

### TOP 10 HOLDINGS

As at 30 September 2006	% of Fund
Naspers Ltd – N ordinary shares	6.98%
Sasol Ltd – ADR	4.82%
Remgro Ltd	4.70%
France Telecom SA	3.86%
Network Healthcare Holdings Ltd	3.66%
Woolworths Ltd	3.39%
Standard Bank Group Ltd	3.18%
Edinburgh Partners Euro Fund	3.15%
Harley Davidson	2.62%
Comgest Nouvelle Asie	2.46%
<b>Total</b>	<b>38.82%</b>

### CUMULATIVE PERFORMANCE SINCE INCEPTION



### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2006	01/10/2006	66.66	51.02	15.64
31/03/2006	01/04/2006	38.44	36.19	2.25
30/09/2005	01/10/2005	0.00	0.00	0.00
31/03/2005	01/04/2005	0.00	0.00	0.00

### ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	23.91%	4.03%	19.87%
2004	19.54%	4.44%	15.10%
2003	13.37%	4.21%	9.15%
2002	2.12%	10.50%	-8.38%
2001	30.55%	6.52%	24.03%
2000	11.61%	8.21%	3.40%
1999	26.15%	5.20%	20.94%

### MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2006	3.19%	-0.07%	2.05%	0.99%	2.17%	3.60%	-0.96%	3.63%	6.62%			
B'mark 2006	0.73%	0.22%	0.43%	0.43%	0.57%	0.50%	1.07%	0.49%	0.20%			
Fund 2005	2.48%	1.20%	0.77%	-1.62%	6.58%	1.02%	4.34%	1.14%	1.84%	0.80%	0.15%	3.17%
B'mark 2005	0.46%	0.08%	1.06%	0.52%	0.22%	-0.22%	1.04%	0.37%	0.22%	0.22%	-0.07%	0.07%