

For the second quarter of the year the fund returned -2.2%, slightly behind the financial index return of -1.7%. Over one year the fund has generated a 36.7% return, and over 3 years a compound annual return of 37.1%

The share prices of the banks came under pressure during the quarter, and as a group were down nearly 7%. Given that more than 50% of the fund is invested in banks, performance was negatively impacted. The poor performance of the sector appears to have been driven largely by two factors, namely:

- Poorer than expected macro-economic data which culminated in an interest rate hike in June, and concerns that a further, previously unexpected 50 basis point increase will materialise before the year is out.
- The implementation of the National Credit Act (NCA) in June, which anecdotally has led to a severe short-term slowdown in lending activities, particularly in the areas of mortgages and vehicle finance.

In our previous commentary we noted that the attractiveness of the banks was driven more by the opportunity in the corporate businesses, while the retail businesses were anticipated to normalise. Our view remains unchanged – while the developments noted above may well have a negative short-term impact on retail lending activities, our outlook for medium-term earnings growth is unchanged, and we consider valuations even more attractive than we did three months ago.

The life insurance sector on the other hand experienced a strong quarter and was up nearly 7%. Followers of the fund will notice that for the first time, a significant position has been built in Old Mutual (10% of fund.) Old Mutual has been a notable underperformer of both the equity market and the financial sector since its listing in 1999 for a variety of reasons – expensive acquisitions and subsequent disposals of some of these, problems in Nedbank resulting in a recapitalisation, deteriorating fundamentals of the SA life business and more recently EV restatements in parts of the business. Investor sentiment towards the company remains negative. In our view this is an asset that contains some very attractive components which is now mis-priced.

The acquisition of the Skandia businesses 18 months ago fundamentally altered the make-up of the group, to one consisting of:

- some good quality growth assets (its UK and European life businesses and its US asset manager),
- some relatively mature assets (its SA and Nordic life businesses) and
- some assets that probably fit in somewhere in between (its US life business, as well as Nedbank and Mutual and Federal).

However, the entire group is currently being priced as ex-growth, at a 6% premium to our current estimate of stated embedded value. Looking at it slightly differently, if one assumes comparable market values for the non-life businesses in the group (or quoted values in the case of Nedbank and Mutual and Federal) the implied valuation of the life insurance businesses places no value on new business to be written in future. While there may be some uncertainty about the prospects for the SA life business, we believe the outlook for the UK and European life businesses, which wrote 40% of the group's new business in 2006, is very positive.

This investment may require some patience – restructuring and integration costs resulting from the Skandia acquisition will put pressure on earnings for 2007, and a review of the US life business could still produce some negative restatements. It is impossible to know when the market will look beyond these issues, but we believe that our investors will be well rewarded over the medium term.

Overall we continue to view the financial sector as attractively valued, in particular the banks, now trading at forward p:ε multiples of less than 10x.

**Neill Young**  
Portfolio Manager

<b>Fund category</b>	Domestic Equity Financial
<b>Fund description</b>	Invests in a broad range of financial shares, including banks, insurance and investment companies.
<b>Launch date</b>	1 July 1998

<b>Portfolio manager</b>	Neill Young
<b>Fund size</b>	R1 billion
<b>NAV</b>	2732.37 cents
<b>Benchmark/performance fee hurdle</b>	FTSE/JSE Africa Financial Index

## PORTFOLIO DETAIL

## EFFECTIVE ASSET ALLOCATION EXPOSURE

<b>Sector</b>	<b>30 Jun 2007</b>
<b>Domestic Assets</b>	<b>100.00%</b>
<b>Equity</b>	<b>95.95%</b>
Industrials	3.52%
Financials	92.43%
<b>Real Estate</b>	<b>3.15%</b>
<b>Cash</b>	<b>0.90%</b>
<b>International Assets</b>	<b>0.00%</b>

## TOP 10 HOLDINGS

<b>As at 30 June 2007</b>	<b>% of Fund</b>
Standard Bank Group Ltd	20.07%
FirstRand Ltd	19.10%
Absa Group Ltd	10.55%
Old Mutual	10.30%
Discovery Holdings Ltd	10.20%
Liberty Group Ltd	8.14%
Remgro Ltd	3.52%
JSE Ltd	3.21%
Coronation Fund Managers Ltd	3.19%
Nedbank Group Ltd	2.69%
<b>Total</b>	<b>90.97%</b>

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31/03/2007	01/04/2007	48.55	47.47	1.08
30/09/2006	01/10/2006	46.90	45.39	1.51
31/03/2006	01/04/2006	13.80	12.45	1.35
30/09/2005	01/10/2005	34.72	32.20	2.52

## MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2007	4.43%	0.27%	4.47%	6.87%	-3.85%	-4.77%						
Fund 2006	7.01%	0.60%	3.69%	0.43%	-5.96%	-4.35%	2.94%	1.45%	1.68%	7.56%	3.63%	7.94%
Fund 2005	0.30%	3.52%	-2.03%	-0.91%	2.54%	3.02%	8.57%	0.52%	2.04%	-1.46%	3.14%	9.55%

## FEES (excl. VAT)

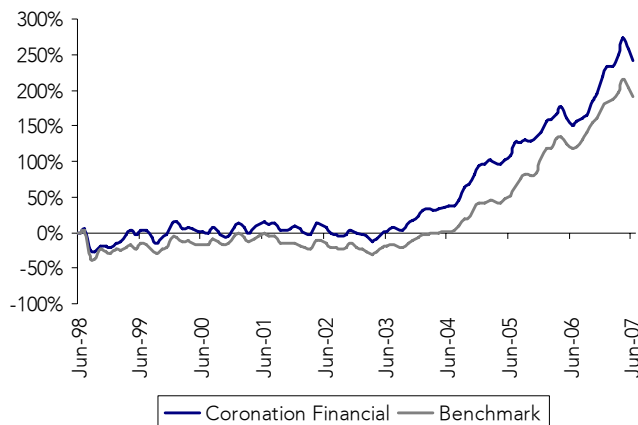
<b>Initial Fee*</b>	Coronation: 0.00% (Direct)
<b>Annual Management Fee**</b>	1.25%
*An initial fee of 0.25% will be charged on all investments placed via administration platforms like Linked Investment Service Providers (LISP's).	
**A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.	
<b>Total Expense Ratio (TER)<sup>2</sup></b>	1.43% per annum

## Advice Costs (excluding VAT)

- Initial and ongoing advice fees may be facilitated on agreement between the Client and Financial Advisor.
- An Initial advice fee may be negotiated to a maximum of 3% and is applied to each contribution and deducted before investment is made.
- Ongoing advice fees may be negotiated to a maximum of 1% per annum (if initial advice fee greater than 1.5% is selected, then the maximum annual advice fee is 0.5%), charged by way of unit reduction and paid to the Financial Advisor monthly in arrears. This annual advice fee is not part of the normal annual management fee as disclosed above.
- Where commission and incentives are paid, these are included in the overall costs.

PERFORMANCE AND RISK STATISTICS<sup>1</sup>

## CUMULATIVE PERFORMANCE SINCE INCEPTION



## PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	7.05%	5.43%	1.62%
Latest 12 months (annualised)	36.76%	33.09%	3.67%
Latest 36 months (annualised)	37.09%	39.02%	-1.92%
Latest 60 months (annualised)	27.20%	26.31%	0.89%
Since inception (annualised)	15.11%	11.80%	3.31%
2006	28.83%	35.83%	-7.00%
2005	32.02%	34.69%	-2.67%
2004	57.09%	52.38%	4.71%
2003	25.19%	17.92%	7.28%

## RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	21.56%	24.13%
Sharpe ratio	0.18	0.02
Maximum gain	53.63%	80.40%
Maximum drawdown	-30.89%	-39.78%
Positive months	62.04%	62.96%