

The fund had a poor quarter on a relative basis, returning 5.3%. This was ahead of the benchmark which returned 4.2%, but behind the average of the competitor unit trusts, which returned 9.7%. We are not happy with this relative underperformance, but are happy with the way the fund is positioned going forward. We have not lost sight of the fact that high returns are often achieved by assuming higher risk, and with the small-cap index being up over 50% per annum for the past four years, we do not consider it prudent to be changing the risk profile of the fund at this stage.

Interest rates are now 24% higher than a year ago, when rate hikes began. On top of this, the National Credit Act (NCA) came into being on 1 June 2007, and to date has had a significant impact on credit advances. The combination of these two factors has placed a lot of pressure on the earnings of credit retailers and businesses that supply them, with resulting pressure on share prices. The fund is not significantly exposed to this – we do not own any predominantly credit retailers, although we do own both Amaps and Nu-World, companies that supply appliances and electronics to retailers. Both of these companies have performed poorly of late, especially Amaps, whose share price has declined 40% in the past five months and is now back to the same levels reached in September 2004, some three years ago. Based on the mid-point earnings expectation quoted in a recent Amaps trading statement, the company now trades on an approximate 10 or 11 PE based on June 2007 results. These results include a large adverse currency impact which we consider abnormal as well as a very poor result from their consumer electronics business. As such, we do not consider these results as a reflection of normal earnings. The NCA and the consumer spending slowdown will make life tough for Amaps in the short-term, but we think that this is more than priced in by the market. In addition, Amaps has over R200 million cash in the bank, giving them an opportunity to restructure their balance sheet, which would be value enhancing. This might be achieved by paying cash for an acquisition or by share buy-backs. All in all, now is a time of maximum pessimism for Amaps, and this is clearly reflected in the share price.

An area of the market which is suffering no headwinds is the construction sector. By and large, we think that the huge amount of optimism in this sector is more than priced into share prices, with some exceptions. New listings have been plentiful in this area of the market, evidence in itself of the boom times being experienced. The pricing and attractiveness of new infrastructure related listings is hugely divergent, necessitating diligent work before considering taking part in share placings. William Tell, a chipboard manufacturer, listed in June at 425c and trades there or thereabouts today. B&W Electrical and Instrumentation, an electrical contractor, listed in the same week at 100c, and trades today at 215c, up 115% in its first four days of trade!

The fund now trades on a forward PE of 10.4 times, off of its peak of 11 times reached in the first quarter. If every counter in the fund were to trade at our assessment of fair value, the fund would offer 22% upside. We do however think that at some time, corporate earnings will begin to reflect the 24% increase in rates in the past year, and that share prices will react accordingly. This will in our opinion, present opportunities to buy undervalued shares.

Alistair Lea
Portfolio Manager

Fund category
Fund descriptionDomestic Equity Smaller Companies
Invests in small and mid capitalisation
companies, developing industries and
recovery shares.

Launch date

1 April 1997

Portfolio manager

Fund size

NAV

Benchmark/performance fee hurdle

Alistair Lea

R222.7 million

4597.78 cents

Composite benchmark: FTSE/JSE
Africa Mid & Small Cap Indices

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Jun 2007
Domestic Assets	100.00%
Equity	95.56%
Basic Materials	2.71%
Industrials	7.12%
Consumer Goods	24.53%
Consumer Services	51.04%
Financials	7.15%
Technology	3.01%
Real Estate	2.03%
Cash	2.41%
International Assets	0.00%

TOP 10 HOLDINGS

As at 30 June 2007	% of Fund
Distell Group Ltd	8.06%
Adcorp Holdings Ltd	5.45%
Mobile Industries Ltd	4.93%
Iliad Africa Ltd	4.77%
Famous Brands Ltd	4.55%
Woolworths Holdings Ltd	4.54%
Amalgamated Appliance Ltd	4.44%
Cashbuild Ltd	4.31%
Sovereign Food Invest	3.42%
Spar Group Ltd	3.13%
Total	47.60%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31/03/2007	01/04/2007	15.92	10.99	4.93
30/09/2006	01/10/2006	24.70	22.43	2.27
31/03/2006	01/04/2006	47.09	44.28	2.81
30/09/2005	01/10/2005	19.43	17.36	2.07

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2007	7.95%	2.20%	2.91%	6.22%	1.25%	-2.07%						
Fund 2006	9.60%	4.83%	1.55%	2.08%	-3.70%	-4.47%	4.01%	3.94%	1.58%	6.61%	8.49%	5.43%
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%

FEES (excl. VAT)

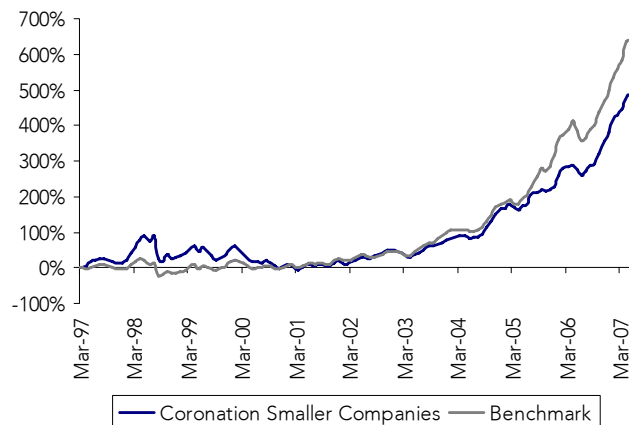
Initial Fee¹	Coronation: 0.00% (Direct)
Annual Management Fee²	1.00%
¹ An initial fee of 0.25% will be charged on all investments placed via administration platforms like Linked Investment Service Providers (LISP's).	
² A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.	
Total Expense Ratio (TER)²	1.18% 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 STATISTICS¹

CUMULATIVE PERFORMANCE SINCE INCEPTION



PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	19.57%	19.34%	0.23%
Latest 12 months (annualised)	60.12%	56.82%	3.31%
Latest 36 months (annualised)	46.47%	48.69%	-2.22%
Latest 60 months (annualised)	35.54%	38.00%	-2.46%
Since inception (annualised)	18.82%	20.39%	-1.57%
2006	46.72%	43.26%	3.46%
2005	25.94%	41.37%	-15.43%
2004	48.14%	38.62%	9.52%
2003	20.64%	36.35%	-15.71%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	22.73%	19.42%
Sharpe ratio	0.31	0.44
Maximum gain	67.21%	62.56%
Maximum drawdown	-37.63%	-30.55%
Positive months	65.04%	64.23%