

The quarter to September was an unhappy one for the fund, returning -1.6%. As at the end of June, the 12-month return stood at 57.6%. Dropping off a strong quarter in the previous year and adding a weak one saw this drop to 39.4% as at the end of September. The three-year compound annual return now stands at 38.4%. Comparatively, the benchmark delivered 3.3%, 37.7% and 39.5% for the quarter, year and three years respectively.

We have been warning for some time that expectations were too high and that the market could experience a setback. That the setback happened was therefore no great revelation; the performance of the fund however was, especially in a relative sense. Tougher economic times are with us. The fund's exposure to consumer cyclicals is limited against this very eventuality. However, the performance did not reflect this conservative positioning. In looking for the explanation, three reasons are clear, the first being a sin of omission and the other two, of commission. Firstly, two biggest bets in the fund (zero telecom holding and low construction holding) proved costly. With industrials broadly under pressure, these were among the only sectors showing strong positive growth. Secondly, the large holdings in defensive plays such as food retail (Spar, Woolies), media (Naspers, Johncom), services (Bidvest) and hospitals (Netcare, Medi-Clinic) did not seem to do the fund much good. Lastly the new investments in two fallen angels (Imperial and Steinhoff) proved to be very premature, and like Icarus these angels continued a fiery downward trajectory well after purchase by the fund.

These timing issues feel painful in the short term, but would be much more concerning if they point to problems with valuation or process. Such is not the case. The fund remains well invested in equities that are soundly underpinned by fundamentals and more importantly, by a sufficient valuation margin of safety. The largest individual positions remain Naspers, Woolies, Spar and Bidvest. During the quarter the defensive component was further strengthened by a new position in Pick 'n Pay. This company will benefit greatly from rising food inflation but has lagged its peers, Spar and Shoprite greatly. It has an enduring franchise and despite management changes and strategic challenges, is offering value. Another 'defensive' bought in the quarter is Afgri. This group has a patchy track record, but has some good assets and will also be a major beneficiary of rising food inflation and improved agricultural conditions, all of this on a single-digit PE.

The recent market setback allowed a gingerly second bite at the construction cherry, with a small position in Aveng established and a larger 3% position in PPC, the latter a company whose high margins and strong cash flows enhance the margin of safety. The fund continues to struggle justifying the ratings on this sector and but for a flutter here and there, remains on the sidelines. One such flutter was Stefanutti and Bressan, a new listing in the sector. Having doubled since listing, it was sold just after quarter-end. Other indirect ways of playing the capital investment cycle include Mittal Steel, where a position was re-established in the quarter and York Timber, where a placement of new shares allowed an investment. This company may turn out to be a bit of a sleeper, but given its new-found integration into forestry assets its long-term prospects are excellent. Construction timber is going to become a very scarce resource.

Sales during the quarter were all small, and included Adcorp Holdings, a company whose fundamentals remain excellent but where shareholder value was unfortunately greatly diluted by a BEE deal; Iliad Africa, where a proposed private equity deal pushed the rating hard; Sovereign Foods which was switched into Afgri; Discovery Holdings, a non-benchmark stock against the backdrop of many cheap industrials; and HCI, in favour of increasing the more direct exposure to the gaming assets in Tsogo via Johnnic.

With relative performance under pressure the daily review of the fund reveals, encouragingly, that it is difficult to find things to sell, given that all holdings are offering value. This remains the acid test and signals hope going forward.

Dirk Kotzé
Portfolio Manager

Fund category Domestic Equity Industrial
Fund description Invests in a broad range of domestic industrial shares.
Launch date 1 July 1998

Portfolio manager Dirk Kotzé
Fund size R95.7 million
NAV 5219.87 cents
Benchmark/performance fee hurdle FTSE/JSE Africa Industrial Index

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2007
Domestic Assets	100.00%
Equity	96.03%
Basic Materials	8.52%
Industrials	25.08%
Consumer Goods	19.27%
Healthcare	4.85%
Consumer Services	38.31%
Real Estate	2.79%
Cash	1.18%
International Assets	0.00%

TOP 10 HOLDINGS

As at 30 September 2007	% of Fund
Naspers Ltd – N ordinary shares	7.55%
Woolworths Ltd	7.09%
Spar Group Ltd	6.93%
Famous Brands Ltd	5.61%
Bidvest Group Ltd	5.25%
AVI Ltd	4.34%
Tiger Automotive Ltd	4.16%
Imperial Holdings Ltd	3.87%
Steinhoff Ltd	3.33%
Remgro Ltd	3.05%
Total	51.18%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2007	01/10/2007	17.39	15.62	1.77
31/03/2007	01/04/2007	14.67	11.23	3.44
30/09/2006	01/10/2006	38.88	35.09	3.79
31/03/2006	01/04/2006	42.71	40.74	1.97

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2007	6.31%	0.15%	1.60%	6.60%	0.50%	-1.68%	-2.36%	-0.20%	1.03%			
Fund 2006	8.29%	1.23%	2.16%	1.98%	-4.53%	-3.70%	1.89%	3.68%	2.40%	7.90%	7.17%	7.44%
Fund 2005	1.26%	0.15%	-1.32%	-2.48%	6.82%	2.95%	10.56%	2.55%	3.47%	-1.41%	1.46%	7.22%

FEES (excl. VAT)

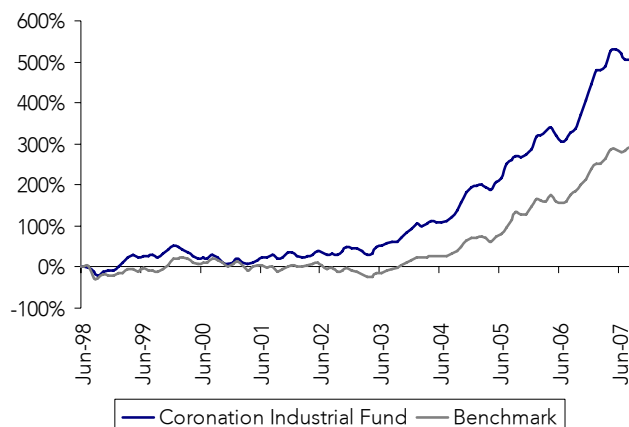
Initial Fee*	Coronation: 0.00% (Direct)
Annual Management Fee**	1.00%
<small>* An initial fee of 0.25% will be charged on all investments placed via administration platforms like Linked Investment Service Providers (LISP's).</small>	
<small>** A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.</small>	
Total Expense Ratio (TER)²	1.22% 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	12.18%	15.85%	-3.67%
Latest 12 months (annualised)	39.37%	37.70%	1.68%
Latest 36 months (annualised)	38.43%	39.51%	-1.08%
Latest 60 months (annualised)	37.24%	33.54%	3.70%
Since inception (annualised)	22.05%	15.55%	6.50%
2006	41.12%	41.86%	-0.74%
2005	35.03%	35.46%	-0.42%
2004	53.35%	46.59%	6.76%
2003	32.27%	25.24%	7.03%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	17.26%	21.16%
Sharpe ratio	0.64	0.21
Maximum gain	55.76%	61.72%
Maximum drawdown	-29.82%	-38.53%
Positive months	64.86%	66.67%