

The fund had a good quarter on both a relative and an absolute basis, returning 3.8%. This was ahead of the benchmark which returned 0.8%, and ahead of the category mean, which returned 3.2%. On a 1-year basis, the fund has delivered a 51% return, comfortably ahead of the benchmark, but still behind the category mean which delivered a return of 57%.

The quarter past was a story of two halves: a big collapse in markets, followed by a big recovery. The prime driver of the collapse in markets in July was the global liquidity crisis sparked by the sub-prime mortgage issue. Global liquidity has supported strong markets for the past few years and enabled financial institutions to lend cheap debt to willing consumers. With US housing prices now under considerable pressure after years of phenomenal growth, many US consumers face the potential situation where the value of their homes might be less than the value of their mortgage debt. The increased level of debt defaults has resulted in this liquidity, or the willingness of financial institutions to lend money, having dried up.

The market recovery was sparked by two factors. Firstly, US and European central banks have been very vocal in committing to provide the necessary liquidity in order to avert any crisis, and secondly, the US Federal Reserve cut interest rates by 50 basis points.

These factors did impact on small and mid cap stocks, but not to the same extent as the Top 40 stocks. In the period 23 July to 17 August, the FTSE/JSE Top 40 Index was down 13.5%, whereas the FTSE/JSE Small Cap Index was down 7.3%. From 17 August to date, the FTSE/JSE Top 40 Index has recovered by 21%, while the FTSE/JSE Small Cap index has put on 12%. What this shows is that the larger shares have been far more volatile over this period. This contradicts the opinion held by many that small cap stocks are more risky. Small Cap stocks are effected far less by global issues such as commodity prices, currencies and liquidity, and as such, do not suffer as much from the roller coaster ride induced by the volatility in these uncontrollable factors.

The spate of new listings, particularly on AltX, continues apace. Generally, the demand for shares in new listings far exceeds supply, resulting in share placements being heavily oversubscribed. This imbalance often spills over into the trading of these new shares, causing rapid share price appreciation. This story will remind many of the small cap listing boom of 1998/1999, which ended in tears. Whereas back then the primary driver was the IT company frenzy ahead of "Y2K", today it is a construction listing frenzy. In our mind, there are some important differences, but also many similarities. The main difference to us is that the buoyant cycle ahead of these construction new listings appears good for the medium term, probably anywhere between 5 and 15 years. Secondly, several of these new listings are companies that have been around for many years, through good and bad cycles. Yes, some have been cobbled together and dressed up for a listing, and we would be wary of these. Our attitude to this new listing cycle is the same as our attitude to any other investment opportunity – we assess each and every opportunity on its merit.

The fund now trades on a forward PE of 10.1 times, off its peak of 11 times reached in the first quarter of 2007. We said back then that we felt the market was extended, and while this would remain our view, there are some specific opportunities in companies whose current earnings are below normal levels and where pessimism abounds.

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

R231.4 million

4772.48 cents

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

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2007
Domestic Assets	100.00%
Equity	95.33%
Basic Materials	7.71%
Industrials	33.20%
Consumer Goods	21.73%
Healthcare	1.02%
Consumer Services	22.51%
Financials	3.70%
Technology	5.46%
Real Estate	1.80%
Cash	2.78%
International Assets	0.00%

TOP 10 HOLDINGS

As at 30 September 2007	% of Fund
Distell Group Ltd	6.61%
Adcorp Holdings Ltd	5.02%
Omnia Holdings Ltd	4.65%
Famous Brands Ltd	4.31%
Amalgamated Appliance Ltd	4.19%
Mobile Industries Ltd	4.11%
Woolworths Holdings Ltd	3.72%
Cashbuild Ltd	3.33%
Iliad Africa Ltd	3.29%
Spar Group Ltd	3.15%
Total	42.38%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2007	01/10/2007	17.00	14.87	2.13
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

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%	1.29%	0.03%	2.45%			
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)

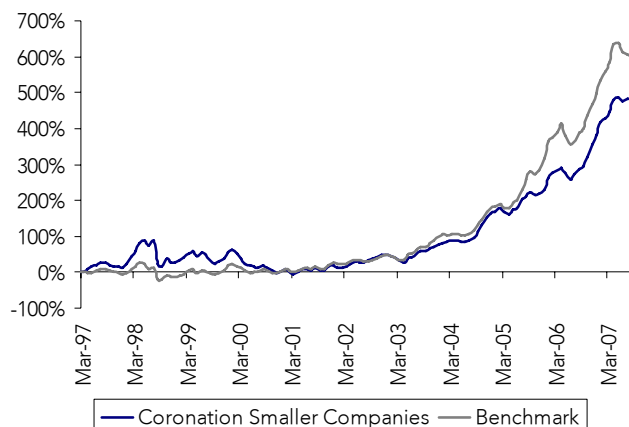
Initial Fee*	Coronation: 0.00% (Direct)
Annual Management Fee**	1.00%
*An initial fee of 0.25% will be charged on all investments placed via administration platforms like Linked Investment Service Providers (LISP's).	
**A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.	
Total Expense Ratio (TER) ²	1.19% 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	24.12%	20.33%	3.80%
Latest 12 months (annualised)	51.36%	44.10%	7.26%
Latest 36 months (annualised)	41.79%	43.35%	-1.56%
Latest 60 months (annualised)	34.79%	38.58%	-3.79%
Since inception (annualised)	18.75%	19.95%	-1.20%
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	22.47%	19.22%
Sharpe ratio	0.31	0.43
Maximum gain	67.21%	62.56%
Maximum drawdown	-50.21%	-38.18%
Positive months	65.87%	63.49%