

The continued rosy outlook of synchronized global economic growth has been dealt a major blow by the sub-prime induced liquidity scare that started around mid-year. The final quarter of 2007 was marked by a sharp increase in volatility in financial markets around the world reflecting the increased uncertainty. The key questions remain whether the US will avoid a recession or not, and whether the emerging world can continue its superb economic growth record of the past five years even if the world's largest economy falters.

In South Africa, the Reserve Bank went against the global trend by hiking interest rates at both monetary policy committee meetings despite evidence of already sharply declining consumer spending. As a result we are of the view that domestic economic growth is bound to slow in 2008 compared to the growth achieved in the previous two years. We are also of the view that global economic growth will slow in the wake of the liquidity crisis already mentioned.

The upshot of the above is that company profits are likely to grow at a slower pace than previously expected and will likely contract in certain areas. In order to prepare the portfolio for this more subdued outlook we felt it prudent to become more defensive in our portfolio positioning.

The biggest change made to the portfolio over the past quarter was within domestic equities where we sold a number of smaller market capitalization shares and added to some of the larger companies where we felt confident in the value underpinning the share price. Remgro is a good example where we raised the fund's exposure from 4.2% of equities to 8.4%. The total number of counters in the portfolio was reduced from 49 to 39 and it is the aim to reduce that even more. We also reduced exposure to the more volatile commodity sector with sales of Anglos, Impala Platinum and Exxaro.

During the quarter the fund grew from R73.5 million to R90.6 million, mostly due to new inflows. We partly used the inflows to build the cash holding of the portfolio to just above 50%, of which the bulk is in domestic cash with only around 5% in global cash. We also added a little exposure to domestic bonds. Total interest bearing assets now comprise two thirds of the portfolio. A further 8.3% is held in high yielding preference shares and listed property, leaving the exposure to equities at 17.3% local and 7.7% global.

The Balanced Defensive Fund is deliberately cautiously positioned and should give investors adequate protection against capital losses in the period ahead, while utilizing the high domestic interest rate environment to earn a real return. We remain concerned about the level of the rand and through certain specific stock selections in the domestic equity portion as well as the exposure to global assets we will offer some protection against rand depreciation.

It was not an easy quarter from a returns perspective, with two down months for equities out of the three. Despite this, the fund returned a positive performance of 0.6% for the quarter, holding true to its defensive nature.

Charles de Kock and Mark le Roux
Portfolio Managers

Fund category	Domestic Asset Allocation Prudential Low Equity
Fund description	The fund aims to provide a reasonable level of current income and seeks to preserve capital in real terms, with lower volatility over the medium to long-term.
Launch date	1 February 2007

Portfolio manager/s	Charles de Kock and Mark le Roux
Fund size	R90.6 million
NAV	103.33 cents
Benchmark/performance fee hurdle	Alexander Forbes 3-month (STeFI) Index plus 3%

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2007
Domestic Assets	87.11%
Equity	17.32%
Oil & Gas	1.15%
Basic Materials	3.32%
Industrials	2.65%
Consumer Goods	2.68%
Healthcare	0.44%
Consumer Services	3.19%
Telecommunications	1.01%
Financials	2.88%
Preference Shares & Other Securities	4.03%
Real Estate	4.27%
Fixed Interest	15.21%
Cash	46.28%
International Assets	12.89%
Equity	7.75%
Cash	5.14%

TOP 10 HOLDINGS

As at 31 December 2007	% of Fund
Coronation Global Equity Fund of Funds	7.75%
Absa Group Ltd – Ordinary and Preference Shares	3.74%
Standard Bank Group Ltd	2.34%
Fountainhead Property Trust	1.96%
Remgro Ltd	1.50%
Impala Platinum Holdings Ltd	1.29%
Naspers Ltd – N ordinary shares	1.18%
Sasol Ltd	1.15%
Liberty International Plc	1.05%
AVI Ltd	0.86%
Total	22.82%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31/12/2007	01/01/2008	1.13	0.04	1.09
30/09/2007	01/10/2007	1.33	0.30	1.03
30/06/2007	01/07/2007	1.03	0.02	1.01
31/03/2007	01/04/2007	0.88	0.09	0.79

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2007			1.25%	1.66%	0.40%	-0.60%	0.29%	0.81%	1.17%	1.71%	-0.93%	-0.17%

FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee*	1.50%
* 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	The TER cannot be accurately determined and will be in line or higher than the quoted annual management fee.

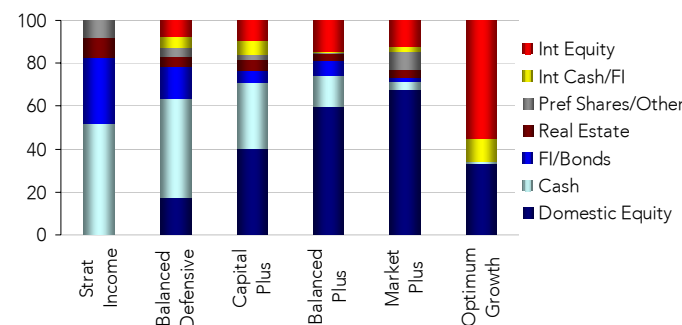
Advice Costs (excluding VAT)

- 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

ASSET ALLOCATION

Managed flexible fund range as at 31 December 2007



PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	N/A	N/A	N/A
Since inception	5.69%	10.47%	-4.77%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	N/A	N/A
Sharpe ratio	N/A	N/A
Maximum gain	N/A	N/A
Maximum drawdown	N/A	N/A
Positive months	N/A	N/A