

2007 proved to be a very poor year for financial stocks in both absolute and relative terms. While the overall market returned 19% for the year, this was primarily driven by resource stocks (29% return) and industrial shares (18% return), whereas the financial sector lagged significantly with a return of only 3%. Over this period the fund outperformed its benchmark with a return of 6.1%. Over 3 years the compound annual return now stands at 21.8%. For the fourth quarter of 2007 the fund delivered a positive return of 1.3% against the index return of -0.7%.

The disappointing performance of financial stocks in general over the past year can be ascribed largely to the tightening monetary conditions in the domestic economy. Since the middle of 2006 we have seen 8 interest rate hikes of 50 basis points each. Two of these came about in the final quarter of 2007, and both of these we consider to be unwarranted – insufficient time was allowed to see the full effect of interest rate hikes work through the system. In addition, inflation has more recently been driven largely by rising food and fuel prices and spending on these essential commodities is unlikely to decline materially as interest rates are raised. As a result, over the last quarter most sectors of the market with significant exposure to the consumer (retailers, motor vehicle distributorships etc) have performed poorly, and the bank sector has fared no better. In addition to deteriorating domestic conditions, global events in particular the sub-prime crisis, have impacted on financial stocks globally. South Africa has not escaped the fallout.

Despite the poor performance of the sector over the period, the fourth quarter included a significant development in the domestic banking industry: the approval by shareholders of the acquisition of 20% of Standard Bank by the Industrial and Commercial Bank of China (ICBC) for \$5.5 billion. This represents the largest ever single foreign direct investment into South Africa and its importance should not be understated. At 20%, Standard Bank has long made up the largest holding in the fund. Part of the investment case was driven by our positive view on management's internationalisation strategy into the rest of Africa and other emerging markets. The strength of this network has now been recognised by China's biggest bank. While ICBC has little or no presence in these markets, its clients are already active in them and will be increasingly so in the years to come. In countries in which ICBC clients transact and Standard Bank has a presence, ICBC will recommend Standard Bank as the preferred banking partner to those clients. The opportunities in both corporate and investment banking that will result from the growth in trade flows are significant. Standard Bank management, who we consider to be consistently conservative in their outlook, anticipate a \$200 million increment to profit after tax in 2010 resulting from this transaction, a 10% uplift to our previous expectations. We continue to believe strongly in the attractiveness of Standard Bank as an investment and would be adding to our current holding in the current share price weakness were it not already so significant in the context of the portfolio.

Investors may be surprised to see nearly 5% of the fund invested in Ellerines, a furniture retailer. Early in the new year, Ellerines will be acquired by African Bank by way of an issue of shares. For the reasons detailed below, we find the investment opportunity resulting from this transaction compelling, and buying Ellerines shares was simply a cheaper entry point into the combined business.

As a house Coronation has traditionally been wary of the furniture retail business model – for businesses that are essentially lenders, balance sheets were not optimally structured, and the margins earned in their lending and financial services businesses appeared unsustainably high to us. However, they do have significant experience in lending to the lower and middle income markets, and through their store bases have attractive distribution infrastructures. There are a number of opportunities for African Bank in acquiring Ellerines:

- Capital synergies: appropriately gearing the combined balance sheet will allow more competitive lending rates in the furniture business and lead to a release of capital
- Cost synergies: two credit functions will combine into a single one, which should result in significant cost savings
- Distribution gains: 1,300 Ellerines branches add to the existing 600 branches of African Bank, and African Bank's 1.2 million customer base has minimal overlap with the 1.4 million Ellerines customers, giving African Bank a new avenue for growth

This is an investment that will require some patience – the current environment is challenging for both micro-lenders and furniture retailers, and business combinations invariably experience teething problems early on. However, we believe strongly in the long term strategic rationale of the transaction, and consider the value opportunity compelling.

The continued weakness in bank share prices during the quarter has resulted in the shares now trading on what we consider to be attractive forward p/e multiples of between 7 and 8 times – large discounts to other emerging market banks, and although not quite at all time lows, multiples last seen in 2004. The full impact of the 2007 interest rate hikes will be felt in 2008, and we would consider there to be a reasonable likelihood of earnings disappointments being reported in the coming year. Notwithstanding this, we continue to believe the banks sector is undervalued. The life insurance sector also looks attractive from a valuation perspective, with a number of shares trading at historically large discounts to their embedded values, and the benefits of a 19% domestic equity market return in 2007 largely being ignored in share prices. Looking to the year ahead, our market will not escape the impact of a slowing global economy, but we see sufficient opportunity within the sector to remain optimistic that the next 12 months will see a better return for the fund than the previous 12.

Neill Young and Godwill Chahwahwa
Portfolio Managers

Fund category
Fund description

Domestic Equity Financial
Invests in a broad range of financial shares, including banks, insurance and investment companies.

Launch date

1 July 1998

Portfolio manager/s

Fund size

NAV

Benchmark/performance fee hurdle

Neill Young and Godwill Chahwahwa

R1 billion

2696.33 cents

FTSE/JSE Africa Financial Index

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2007
Domestic Assets	100.00%
Equity	92.17%
Industrials	3.68%
Consumer Services	4.56%
Financials	83.93%
Real Estate	7.20%
Cash	0.54%
International Assets	0.00%

TOP 10 HOLDINGS

As at 31 December 2007	% of Fund
Standard Bank Group Ltd	19.82%
FirstRand Ltd	14.31%
Old Mutual Ltd	11.40%
Discovery Holdings Ltd	7.98%
Liberty International Plc	6.42%
Liberty Group Ltd	6.10%
Investec Ltd	5.37%
Absa Group Ltd	4.65%
Ellerine Holdings Ltd	4.56%
Nedbank Group Ltd	4.26%
Total	84.87%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2007	01/10/2007	10.40	9.58	0.82
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

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%	1.00%	-0.47%	-2.73%	12.21%	-5.75%	-4.19%
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)

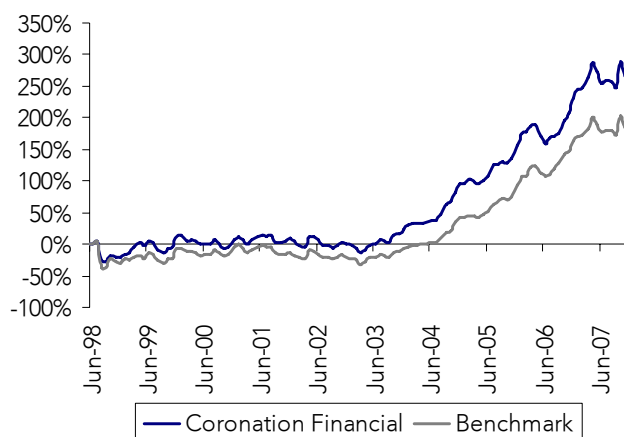
Initial Fee*	Coronation: 0.00% (Direct)
Annual Management Fee**	1.25%
<small>*An initial fee of 0.25% will be charged on all investments placed via administration platforms like Linked Investment Service Providers (LISP's).</small>	
<small>**A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.</small>	
Total Expense Ratio (TER)²	1.44% 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	6.06%	3.03%	3.03%
Latest 12 months (annualised)	6.06%	3.03%	3.03%
Latest 36 months (annualised)	21.73%	23.53%	-1.80%
Latest 60 months (annualised)	28.82%	27.63%	1.19%
Since inception (annualised)	14.15%	10.87%	3.28%
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	21.53%	23.94%
Sharpe ratio	0.14	-0.08
Maximum gain	53.63%	80.40%
Maximum drawdown	-30.89%	-39.78%
Positive months	60.53%	62.28%