

In 2007, the fund returned 23.8%. While this was disappointing when measured against the average competitor fund which returned 33%, the performance was ahead of a market cap weighted mid and small cap benchmark, which delivered a 20.2% return. Investors in the fund might well ask why the fund has underperformed its competitors by some 9.2%, and we would answer as follows.

- The fund performance has been impacted by a few poor stock picks. Amalgamated Appliances would fall into this category. In addition, we missed a significant portion of the returns delivered by many of the construction stocks. For example, we did not hold Bell Equipment (up 104%) or Aveng (up 89%). We have generally been of the opinion that the construction stocks are expensive and have priced in the great infrastructure environment which lies ahead.
- High returns are achieved by taking risk. Unfortunately, the converse is also true. A significant portion of the excess returns achieved in the small cap space in 2007 came from investing in Alt-X, which was up 78% for the year. We were not particularly successful in obtaining decent sized positions in the new Alt-X listings we liked, and on the whole have preferred to take a cautious approach to investing in the stream of new listings we have seen.
- After many years of superb performances by mid and small cap shares, the fund was relatively defensively positioned throughout the year. Defensive stocks such as Distell, Famous Brands, Spar, Adcorp and Country Bird all feature in the fund's top 10 holdings. While these stocks generally did not deliver returns to match many of the year's high-flyers, we would expect them to outperform in a tougher economic environment.

We believe that the fund is well positioned for the current market environment. The year ahead looks like it will be a tough one for any business selling durable goods to the South African consumer. Motor vehicle, furniture, electronic and clothing retailers will all struggle not to show a decline in earnings. The fund currently has very little exposure to this segment of the market, but share prices are beginning to approach levels which would interest us as buyers. As an investor, the best returns are often made by taking brave and contrarian views and buying at the time of maximum pessimism. It is very difficult to get the timing of a buy exactly right and as a consequence, fund performance in the short term may be negatively affected. However, a good business experiencing a cyclical downturn invariably recovers in time.

Two other examples of companies where pessimism abounds are Astrapak and Illiad. These two counters have declined 37% and 39% respectively in the past 6 months. Astrapak is experiencing tough trading conditions as a result of its inability to pass on all of the raw material price hikes it has incurred, which have been significant, due to the link to crude oil prices. In addition, demand for Astrapak's product is likely to soften in line with declining consumer demand, but offset by the fact that Astrapak supply a significant amount of packaging into the defensive food and beverage sectors. We think that in the medium term Astrapak will recover from this tough environment, and have recently initiated a position in the company.

Illiad was the subject of a private equity offer at R24 per share during 2007, which was subsequently withdrawn. Today the share price is below R14, with the market worried about a slowdown in residential building and the impact this might have on Illiad. We have no doubt that trading has become more difficult, but believe that this will recover in the medium term. In addition, Illiad continues to do small value-accretive acquisitions and have publicly stated their intention to restructure their overcapitalised balance sheet. As such, we have been adding to our position in Illiad.

The fund is also invested in several smaller companies, many of them recently listed, whose prospects we believe are very good and not yet priced in by the market. O-Line Holdings, a cable support manufacturer, and Mazor Group, a steel and aluminium construction company are good examples.

The fund now trades on a forward PE ratio of 9.5 times, off its peak of 11 times reached in the first quarter of 2007. The outlook for the year ahead is difficult to call, with the earnings base of corporate SA likely to be under pressure. That said, we have created a diversified portfolio of smaller companies which we consider to be undervalued and as such, we expect the fund to deliver a positive return.

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

R213.2 million

4743.67 cents

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

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2007
Domestic Assets	100.00%
Equity	96.89%
Basic Materials	5.73%
Industrials	40.09%
Consumer Goods	18.03%
Healthcare	1.73%
Consumer Services	19.74%
Financials	4.69%
Technology	6.88%
Real Estate	1.59%
Cash	1.52%
International Assets	0.00%

TOP 10 HOLDINGS

As at 31 December 2007	% of Fund
Trencor Ltd	5.58%
Distell Group Ltd	5.18%
Famous Brands Ltd	4.81%
Country Bird Holdings Ltd	3.82%
Adcorp Holdings Ltd	3.76%
Spar Group Ltd	3.68%
Amalgamated Appliance Ltd	3.53%
Kelly Group SA Pty Ltd	3.49%
Woolworths Holdings Ltd	3.47%
Iliad Africa Ltd	3.47%
Total	40.79%

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%	3.47%	-4.84%	1.30%
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)

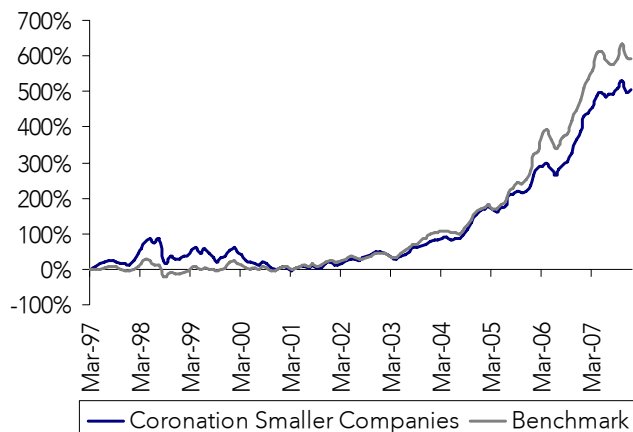
Initial Fee*	Coronation: 0.00% (Direct)
Annual Management Fee**	1.00%
*An initial fee of 0.25% will be charged on all investments placed via administration platforms like Linked Investment Service Providers (LISP's).	
**A portion of Coronation's annual management fee may be paid to administration platforms 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	23.80%	20.27%	3.53%
Latest 12 months (annualised)	23.80%	20.27%	3.53%
Latest 36 months (annualised)	31.76%	34.55%	-2.79%
Latest 60 months (annualised)	32.53%	35.72%	-3.19%
Since inception (annualised)	18.25%	19.44%	-1.19%
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	22.30%	19.16%
Sharpe ratio	0.29	0.40
Maximum gain	67.21%	62.56%
Maximum drawdown	-50.21%	-38.18%
Positive months	65.89%	62.79%