

The last quarter of 2008 will be remembered as one of the most newsworthy periods in recent years, with the victory of Barack Obama in the US presidential election stealing the limelight. Governments, policymakers and investors spent most of this period fretting about the state of the banking system, particularly the lack of credit extension to businesses and individuals in the face of a potential collapse in economic output in the developed world. We also saw sentiment towards Emerging Markets sour due to the dimming of expectations that the big economies within this group would escape the worst of the economic malaise afflicting the developed world. It is primarily for these reasons that global stock markets performed atrociously in 2008, wiping out several years of gains and perpetuating the gloom felt by all. In its inaugural year, the fund declined by 22.9% and while this is naturally disappointing, it outperformed the 34.5% decline in the MSCI Emerging Markets Index by a substantial margin of 11.5%.

We recently spoke of the effect of falling markets on the case for investing in equities, particularly in the markets of Brazil, Russia, India and China (the "BRIC" countries), which we found to be very expensive relative to other markets prior to their 50% plus declines. During the quarter we continued to selectively invest in new stocks or add to our existing positions within these markets.

Brazil had a tumultuous year due its position as a large producer of several hard and soft commodities. When prices of these were high the effects were palpable, with the currency at a seven-year high and company valuations were elevated. Falling commodity prices caused the currency and stock market to fall sharply making many companies attractive. One new investment was in Grendene, who makes a variety of fashionable sandals and flops with strong branding in Brazil. Their "Ipanema" range is marketed by supermodel Giselle Bündchen and is sold worldwide, even recently finding its way onto South African shelves via Woolworths. In recent years, Grendene was able to maintain its domestic market share and generate decent cash flows despite an exchange rate that forced several smaller manufacturers out of the industry as Chinese imports undercut them. With the currency having fallen well over 50% since mid-2008, Grendene's position is very strong as imports are priced out and the domestic market has consolidated. Despite this improvement in outlook, the share price has fallen to less than 5 times earnings for 2009, with substantial upside in these earnings since 20% of production is exported.

Elsewhere, Russia has fallen completely out of favour with investors. The war with Georgia and Vladimir Putin's belligerent comments about a coking coal producer alerted investors to the level of state interference and corporate governance failures common in many Russian firms. Yet, as is typical in cases of panic, valuations in Russia have plunged to ridiculously low levels with energy giant Gazprom (a monopoly supplier of gas within Russia and largest single supplier to Western Europe) falling 75% to less than 3 times earnings. These earnings will not follow oil prices downward as gas prices are regulated below market levels and did not follow oil prices up when they increased. We recently purchased X5 Retail Group and Magnit, two food retailers that have enjoyed phenomenal store growth in recent years and, in our view, still have many years of like-for-like sales growth ahead. The Russian retail market is fragmented with no dominant retail chains and X5 and Magnit are the first serious retail groups to emerge in Russia, where there is still room for large-scale store growth for several years. Magnit in particular is rolling out stores throughout rural Russia, a country fourteen times larger than South Africa, giving rural Russians their first smart hypermarket in towns still dominated by Soviet-style service options. These companies trade at multiples more appropriate for retailers in mature markets.

In India the positive effects of a decade of 7% to 8% average growth are apparent with a visible improvement in living standards for many people. Their market was perhaps the most expensive of the BRIC countries so we anticipated that the 50%-plus fall from peak levels prior to our visit in early November would mean there are many undervalued Indian shares. Unfortunately the market remains overvalued, mostly because it is dominated by poor quality companies such as construction, chemicals and property, which trade at valuations more appropriate for quality businesses. Those businesses we liked, such as telecoms and consumer goods, trade at valuations well above other Emerging Market peers with similar growth prospects. One exception was Infosys, a worldwide provider of IT consulting and software solutions to companies and governments. The client base is primarily located in developed markets and pay in hard currency, whereas the cost base is rupee-dominated. This gives Infosys a substantial competitive edge over its rivals such as Accenture and a good hedge against the currency weakness India is currently experiencing.

China has not escaped the contagion - a few months ago investors were willing to pay 30 to 40 times earnings for companies, now many have dropped to single digit multiples. For the first time in many years we are seeing Chinese shares offering compelling value and have increased our China exposure significantly. One recent purchase is Ports Design, a high end garment retailer with a strong brand that was recently rated second only to Chanel amongst Chinese women in a fashion survey. The expected economic slowdown in China is having little effect on the company's store rollout plans as sales in existing stores are still growing at double digits, yet the share fell from a peak of HK\$30 to as low as HK\$6 to trade at single digit multiples.

We remain committed to our view that the long-term returns offered by Emerging Market equities are compelling and are particularly excited given that current valuations (at 20 year lows in emerging markets) allow one to buy equities with exposure to this growth at very low multiples.

Gavin Joubert, Mark Butler and Suhail Suleman
Portfolio Managers

Fund category	Foreign Asset Allocation Flexible
Fund description	Aims to provide long-term capital appreciation by investing in global emerging markets.
Launch date	28 December 2007

Portfolio managers	Gavin Joubert, Mark Butler and Suhail Suleman
Fund size	R76.0 million
NAV	75.31 cents
Benchmark/Performance Fee Hurdle †	MSCI Emerging Markets Index

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

	31 December 2008
Equities	90.46%
South Africa	13.09%
Mexico	12.69%
Russia	11.07%
Brazil	10.37%
China	10.15%
Malaysia	3.12%
Denmark	2.99%
Turkey	2.84%
Indonesia	2.72%
Thailand	2.35%
United Kingdom	2.24%
United States	1.95%
Finland	1.95%
Philippines	1.80%
Australia	1.70%
Chile	1.61%
Korea	1.60%
Israel	1.47%
Switzerland	1.17%
Taiwan	1.12%
Colombia	0.85%
Egypt	0.71%
India	0.60%
Hong Kong	0.58%
Estonia	0.30%
Zimbabwe	0.21%
DRC	0.19%
GEM Hedge	(0.98%)
Cash	9.54%
Euro	6.38%
ZAR	1.72%
Other currencies	1.44%

TOP 10 HOLDINGS

As at 31 December 2008	% of Fund
MTN Group Ltd (South Africa)	5.67%
Naspers Ltd – 'N' shares (South Africa)	5.54%
America Movil (Mexico)	4.67%
OAQ Gazprom Reg (Russia)	3.04%
Carlsberg ASB (Denmark)	2.99%
Unibanco GDR (Brazil)	2.94%
Telekomunik Indonesia (Indonesia)	2.72%
Coca-Cola FEMSA SAB (Mexico)	2.71%
Petroleo Brasileiro ADR (Brazil)	2.69%
China Mobile Ltd (China)	2.60%
Total	35.57%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2008	7.24%	6.31%	0.95%	-1.72%	2.64%	-7.61%	-5.80%	0.17%	-8.34%	-13.38%	-5.86%	1.89%

FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee - performance related*	Minimum: 1.50% Maximum: 3.50% Sharing rate: 15%

* 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.

† Please note that the benchmark of USD 3-month LIBOR+5% p.a. has changed with effect 5 August 2008.

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.

INVESTMENT OBJECTIVE

The fund aims to provide long-term capital appreciation by investing in global emerging markets, and achieve these returns with lower volatility than available from investing in relevant equity market indices.

INVESTMENT MANDATE

A flexible, global emerging markets fund that aims to deliver capital growth through active asset allocation with a long-term bias towards equities and a focus on stock picking. The fund will follow a valuation-driven investment philosophy, with a strong focus on potential downside risk in each investment made.

The fund will primarily invest in equity securities of companies based in emerging markets or in equity securities that derive a significant portion of their revenue from emerging markets. In addition, the fund can invest in bonds and cash and has a flexible mandate that enables it to hold high levels of cash, should equity valuations in emerging markets be unattractive.

Emerging markets in which the fund may invest currently include, but are not limited to, Argentina, Brazil, Chile, China, Colombia, Croatia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, South-Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

PERFORMANCE AND RISK STATISTICS¹

PERFORMANCE FOR VARIOUS PERIODS

	Fund	MSCI EM Index	Out-performance
Year to date	-23.00%	-34.53%	11.53%
Since inception (annualised)	-23.00%	-34.53%	11.53%

RISK AND RETURN STATISTICS SINCE INCEPTION

	Fund	MSCI EM Index
Annualised average return	-21.21%	-32.63%
Annualised deviation	21.81%	24.31%
Sharpe ratio	-1.62	-1.93
Maximum gain	15.09%	11.22%
Maximum drawdown	-34.90%	-41.51%
Positive months	50.00%	33.33%

Total Expense Ratio (TER)²

2.09% per annum

When applicable, Coronation shares in the fund performance above the benchmark. This performance fee is accrued daily, based on performance over a rolling 12-month period, and paid to Coronation monthly. If the fund produces a return in line with or below the benchmark, the minimum fee will be levied.

For further information regarding our fee structure please contact us or visit our website.