

The financial crisis of 2008 will go down in history as one of the great crises of the modern era. Credit is the oxygen that feeds economic activity. With the credit crunch as far advanced as it is, there is no doubt that many countries will go into recession (the US, UK and Japan are already in recession). Even the emerging economies, thought by many to be immune to the woes of the developed world, will not escape unscathed. On a positive note, regulators and governments are united in their resolve to restore confidence in the financial system. Amid these challenging circumstances, the fund returned -3.94% for the quarter, compared to the FTSE/JSE Industrial Index return of -4.06%. For the calendar year, the return was -17.52% versus the index return of -16.08%. The 3-year compound returns now stand at 8.97% and 11.93% respectively. The underperformance relative to the index over the year, while disappointing, masks some positives: the fund performed very well relative to peers and had a good second half, outperforming the index by 7.53%.

In previous commentary we highlighted that times of crisis provide allocators of capital an opportunity to acquire quality companies with strong franchises and good earnings prospects at attractive ratings. Although the market has recovered to some extent towards the end of December, we still believe that good value exists. The DNA of the fund remains intact, with large holdings in MTN, Naspers, Richemont, Bidvest and SAB Miller. The emerging market sell-off resulted in these liquid industrials being aggressively sold off to the extent that MTN, Richemont and Bidvest are now offered at around 8.5x forward PEs, whilst Naspers and SAB Miller trade on forward PEs of 11.5x. These ratings are undemanding for globally diversified businesses with best-in-class business models, management and execution. The depressed ratings of these counters are indicative of the market's focus on short-term risks rather than the risk/reward trade-off over the long term. Although trading conditions may be tough now, our work on the fundamentals of these companies gives us the conviction that an investment will be rewarding in the long term.

During the quarter, ArcelorMittal SA was re-introduced into the fund. Its share price fluctuation is a good indicator of current market volatility: we sold out of our position during May at an average price of R230 after which the share peaked at R265. The financial crisis resulted in the global steel market deteriorating rapidly driven by a sharp slowdown in the Chinese construction sector - the single biggest driver of demand. The waning demand was then followed by rapid reductions in both production and price by global steel producers, ultimately triggering a 76% decline in the ArcelorMittal SA share price from peak to trough. Notwithstanding the deteriorating environment, the investment case remains sound. ArcelorMittal SA trades on 6x PE using our assessment of the mid-cycle steel price, with R15 per share of net cash on the balance sheet. Our position of 5.9% of fund was acquired in three tranches, capitalising each time on price weakness. Since bottoming at R62.50, its share price has appreciated more than 50%.

During the quarter, we added to our holdings in MTN, Richemont and Eqstra Holdings, with MTN and Richemont now respectively comprising 12% and 7% of fund. We also added to our holding in Aspen Pharmacare on the back of price weakness, fuelled by concerns over regulatory issues and its ability to maintain margins on the back of rand weakness relative to the dollar. While these concerns are valid, they are short-term in nature. Aspen has an entrepreneurial management team and has succeeded in building a global business with a quality, defensive earnings stream. The recent deal with GlaxoSmithKline to sell Aspen products in emerging market countries (other than sub-Saharan Africa) will only contribute to earnings in two year's time. This deal has the potential to transform Aspen and at the current share price one is not paying for this 'optionality.'

A new addition to the fund during the quarter was Aveng. We also added to our existing position in Group Five. As we mentioned in earlier commentary, we were cautious of the premium ratings that construction counters attracted. This view was vindicated during the quarter with the tier one construction counters more than halving on the back of concerns that clients may not be able to fund future capital projects in the current financial markets. We had no special insights into when the correction would occur; our advantage lay solely in our investment philosophy – an uncompromising commitment to the long term. The pendulum for construction counters has swung from greed to fear and Aveng now trades on a 5.5x forward PE with approximately R5 per share in net cash on the balance sheet.

With great companies on offer at compelling prices, we looked hard at quality and sold out of Ideco Group and Mondi Holdings: 'lower quality' cyclicals which were used to fund more attractive opportunities. Finally, the last bit of Woolworths Holdings and Mr Price was sold to increase our existing weightings in Spar and Shoprite Holdings. The earnings stream of the latter are more defensive and visible in the current environment in which an already indebted consumer continues to be plagued by high inflation and interest rates.

Despite the bounce in markets towards the end of December, uncertainties remain. In a world of collapsing time horizons it is tough to hold a firm course and make the correct long-term decisions. It is essential that investment decisions are evaluated through the course of a full cycle. We have elected to do just that and set emotion aside and concentrate our bets where our conviction leads us. This makes us face the period ahead with surprising confidence.

**Dirk Kotzé and Quinton Ivan**  
Portfolio Managers

**Fund category** Domestic Equity Industrial  
**Fund description** Invests in a broad range of domestic industrial shares.  
**Launch date** 1 July 1998

**Portfolio manager/s** Dirk Kotzé and Quinton Ivan  
**Fund size** R57.0 million  
**NAV** 4208.82 cents  
**Benchmark** FTSE/JSE Africa Industrial Index

### PORTFOLIO DETAIL

#### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 December 2008
<b>Domestic Assets</b>	<b>100.00%</b>
<b>Equity</b>	<b>97.86%</b>
Basic Materials	8.27%
Industrials	21.58%
Consumer Goods	14.20%
Financials	2.14%
Healthcare	7.51%
Consumer Services	32.30%
Telecommunications	11.86%
<b>Cash</b>	<b>2.14%</b>

#### TOP 10 HOLDINGS

As at 31 December 2008	% of Fund
MTN Group Ltd	11.86%
Naspers Ltd	8.30%
Bidvest Group Ltd	6.81%
Compagnie Financiere Richmont SA	6.78%
SAB Miller Plc	5.78%
Famous Brands Ltd	5.41%
ArcelorMittal South Africa Ltd	5.20%
Truworths International Ltd	4.53%
AVI Ltd	4.22%
Netcare Ltd	4.08%
<b>Total</b>	<b>62.97%</b>

#### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2008	01/10/2008	39.97	38.29	1.68
31/03/2008	01/04/2008	6.39	5.95	0.44
30/09/2007	01/10/2007	17.39	15.62	1.77
31/03/2007	01/04/2007	14.67	11.23	3.44

#### MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2008	-13.27%	5.31%	-2.18%	1.42%	0.23%	-8.87%	1.65%	7.51%	-5.07%	-5.98%	-2.81%	5.12%
Fund 2007	6.31%	0.15%	1.60%	6.60%	0.50%	-1.68%	-2.36%	-0.20%	1.03%	5.61%	-5.28%	-0.92%
Fund 2006	8.29%	1.23%	2.16%	1.98%	-4.53%	-3.70%	1.89%	3.68%	2.40%	7.90%	7.17%	7.44%

#### FEES (excl. VAT)

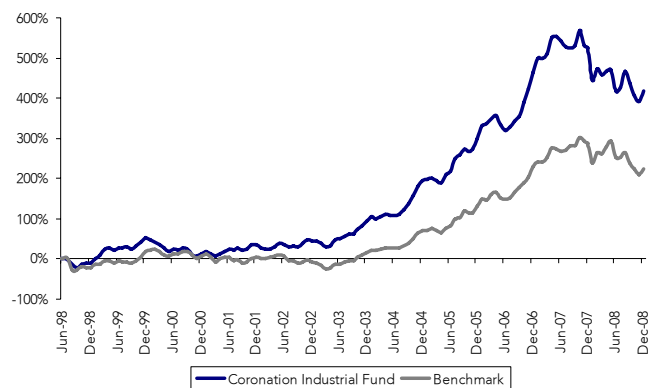
<b>Initial Fee*</b>	Coronation: 0.00% (Direct)
<b>Annual Management Fee**</b>	1.00%
*An initial fee of 0.25% will be charged on all investments placed via administration platforms like Linked Investment Service Providers (LISP's).	
**A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.	
<b>Total Expense Ratio (TER)<sup>2</sup></b>	1.25% 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 STATISTICS<sup>1</sup>

#### CUMULATIVE PERFORMANCE SINCE INCEPTION



#### PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	-17.52%	-16.08%	-1.44%
Latest 12 months	-17.52%	-16.08%	-1.44%
Latest 36 months (annualised)	8.97%	11.93%	-2.96%
Latest 60 months (annualised)	21.79%	22.73%	-0.94%
Since inception (annualised)	16.93%	11.88%	5.05%
2007	11.18%	17.80%	-6.61%
2006	41.12%	41.86%	-0.74%
2005	35.03%	35.46%	-0.42%
2004	53.35%	46.59%	6.76%

#### RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	17.88%	21.23%
Sharpe ratio	0.32	0.03
Maximum gain	55.76%	61.72%
Maximum drawdown	-29.82%	-38.53%
Positive months	62.70%	64.29%