

In 2008, the fund delivered a negative return of 38.7%, slightly better than the mean competitor fund return of negative 39.3%. This is only the second year of negative returns in the fund's 11-year history but is the worst year since inception. In hindsight, one feels that a negative year was due after six consecutive years of 20%-plus returns. The magnitude of the negative return, however, certainly exceeded any expectations. It was a brutal year for equities in general but more so for smaller companies (the rand weakness helped many of the larger global businesses). We think it is fair to say that a good deal of the selling pressure was induced by fear when investors throw up their arms and want out at any price. In addition, it is worth noting that a good deal of the activity in single stock futures was in the smaller companies, where a decline in a share price is magnified considerably by the leveraged position, often forcing positions to be closed out. This places more selling pressure on the affected shares.

It is also interesting to note how significantly the rating (the multiple of earnings investors are willing to pay for a share) of small companies has declined. This time a year ago, the fund traded on a forward PE rating of 9.5 times. It closed 2008 on a rating of 6.6 times; a decline of 30.5%, largely accounting for the fund's 38.7% negative return. The balance of roughly 8% would be accounted for by a decline in the earnings of the companies in the fund.

The feature of the year ahead may well be a material decline in interest rates, with the market expecting rates to be 4% lower by the end of 2009. This expectation has caused a flurry of buying in many interest rate sensitive stocks towards the latter part of 2008, with Truworths, Massmart, Mr Price and Lewis being amongst the best performers (from a share price perspective) for the year past. While lower interest rates will be positive for these stocks, they generally trade at a 20% to 30% premium to the average mid cap stock; the biggest premium they have traded at since late 2001. It would then seem that if interest rates are not cut as aggressively as the market expects, or if the consumer does not rush back to the shopping malls, there could be some relative underperformance from these highly rated retailers. There are, however, other interest rate sensitive shares which have not re-rated at all, such as Iliad, Astrapak and Ceramic Industries. We think the risk return ratio of owning these stocks, as opposed to the already re-rated retailers, is a better strategy for the fund. Astrapak should also benefit in the year ahead from lower raw material prices, which have come down in sync with declining oil prices.

Despite the expected rate cuts, we still believe that 2009 will be a tough year for many businesses and consumers in South Africa. The rapid decline in many commodity prices has placed severe pressure on many mining companies who are likely to lay off staff in order to cut costs. In addition, rate cuts will take some time before they have a meaningful impact on the consumer's wallet and state of mind. The market, however, tends to do a good job of looking through the immediate future and will in all likelihood begin to price in a rosier 2010. So what has been a perfect storm in 2008, in the form of declining ratings and earnings, could well turn around into a re-rating and improved earnings scenario, sometime in 2009. As such, we expect the fund to perform a lot better in the year ahead. Let's hope we are right.

Alistair Lea
Portfolio Manager

Fund category
Fund description

Domestic 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

Alistair Lea
R97.7 million
2857.95 cents
Composite benchmark: FTSE/JSE
Africa Mid & Small Cap Indices

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 December 2008
Domestic Assets	100.00%
Equity	94.02%
Basic Materials	6.27%
Industrials	43.06%
Consumer Goods	16.61%
Healthcare	1.22%
Consumer Services	15.30%
Financials	9.15%
Technology	2.41%
Cash	5.98%

TOP 10 HOLDINGS

As at 31 December 2008	% of Fund
AVI Ltd	6.36%
Iliad Africa Ltd	5.39%
Famous Brands Ltd	5.28%
Ceramic Industries Ltd	4.76%
Omnia Holdings Ltd	3.86%
Trencor Ltd	3.68%
Astrapak Ltd	3.65%
Country Bird Holdings Ltd	3.20%
Sea Kay Holdings	3.18%
Bowler Metcalf Ltd	3.09%
Total	42.45%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2008	01/10/2008	35.65	33.94	1.71
31/03/2008	01/04/2008	26.59	24.44	2.15
30/09/2007	01/10/2007	17.00	14.87	2.13
31/03/2007	01/04/2007	15.92	10.99	4.93

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2008	-15.34%	-2.52%	-2.51%	-2.52%	-3.93%	-7.77%	-3.45%	5.52%	-1.99%	-12.45%	-2.50%	3.57%
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%

FEES (excl. VAT)

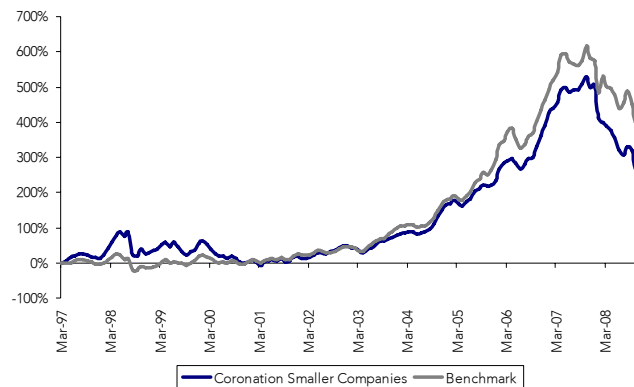
Initial Fee*	Coronation: 0.00% (Direct)
Annual Management Fee**	1.00%
*An initial fee of 0.25% will be charged on all investments placed via administration platforms like Linked Investment Service Providers (LISP's).	
**A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.	
Total Expense Ratio (TER)²	1.20% 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	-38.65%	-21.09%	-17.57%
Latest 12 months	-38.65%	-21.09%	-17.57%
Latest 36 months (annualised)	3.67%	10.78%	-7.11%
Latest 60 months (annualised)	15.76%	21.66%	-5.89%
Since inception (annualised)	11.83%	15.30%	-3.47%
2007	23.80%	20.27%	3.53%
2006	46.72%	43.26%	3.46%
2005	25.94%	41.37%	-15.43%
2004	48.14%	38.62%	9.52%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	22.69%	19.81%
Sharpe ratio	0.01	0.18
Maximum gain	67.21%	62.56%
Maximum drawdown	-50.21%	-38.18%
Positive months	61.70%	60.28%