# CORONATION BALANCED DEFENSIVE

**Class A**
**as at 30 June 2008**

CORONATION FUND MANAGERS

Economic and Market background

The big feature of the second quarter was the massive 38% rise in the oil price to $140 per barrel. Investors and policy makers, already surprised when oil reached three figures earlier in the year, became gravely concerned. central bankers around the world changed their rhetoric to focus on the evils of inflation rather than on providing enough liquidity to get us out of the financial crisis or to avert recession. Global financial markets immediately changed expectations of further interest rate cuts in Europe and the US to anticipating hikes. Economic growth prospects were revised downward, inflation prospects upward and the result was obviously very poor for financial markets in general.

Following a dismal first quarter global stock markets contracted more, with the MSCI world index losing 1.4% in US dollar terms. The MSCI index for emerging markets also contracted, but only by 0.8%. There was no place to hide in bonds either as inflation fears and the changed outlook for monetary policy led to a sharp rise in global bond yields. The yield on the benchmark 10 year US treasuries rose 56 basis points to close at 3.97% after peaking at just above 4.20% during June.

The domestic bond market also had a terrible quarter as the Reserve Bank hiked rates by 50 bps at the April and June meetings of the monetary policy committee in reaction to disappointing inflation numbers. The long dated R157 gained a massive 150 basis points to close the quarter at 10.70%.

The JSE continued the trend of the first quarter with resource stocks performing well while domestic stocks sold-off even more as higher interest rates and duller economic growth prospects took hold. Financial stocks declined by 14.5% following a -12.8% return in the first quarter, taking the year to date returns to -25.5%.

Listed property stocks also sold-off aggressively and declined by 19.6%, taking this sector's year-to-date losses to 28.4%.

Portfolio manager's actions

The fund received large inflows during the quarter, resulting in a more than doubling of the size of the portfolio to R226 million. In light of the deteriorating financial news around the world and bearing in mind the very conservative mandate of the fund, we allowed cash to rise from just below 50% to 63% of the portfolio. The exposure to domestic equities was reduced to 15.2% from the 20% level at the end of March, while exposure to global equities was reduced to 6.2% from 10%.

The one area where we upped exposure was to preference shares. The exposure was increased from 2.3% to 5.1% and we are likely to increase this even further. These shares trade on yields that are linked to the prime rate of interest and has consequently moved higher as the Reserve Bank has tightened monetary policy. Current yield on this portion of the portfolio is 13.2%, a yield we find very attractive.

Within equities we reduced the fund's exposure to bank shares by selling all the ABSA and FirstRand shares following the April rate hike. Bank exposure is now concentrated in Standard Bank and we also added to African Bank where we see very good value. We also added substantially to SAB Miller, Richemont, Naspers and Tiger Brands, as well as smaller amounts to a number of others. We continue to favour the more defensive and good dividend paying companies while limiting exposure to more cyclical shares.

In the bond market we maintained a very low modified duration but did add some long dated government bonds as yields approached the 10.50% level. At this level we believe the bond market is already pricing in a poor inflation outlook and could be surprised by the weakness of the local economy in the months to come.

Performance

The fund's performance for the quarter was a disappointing negative 0.06%. For the year ending June 2008 the fund returned 5.74%. This is clearly significantly behind our target of cash plus 3%, which amounted to 13.63%. We have tried to manage the risk to underperformance by adopting an extremely conservative asset allocation stance. With all major asset classes however underperforming cash for the past year, achieving our target has been particularly difficult. Investors will understand that in order to achieve and exceed the benchmark we have to take some risk in the portfolio. The current weakness in just about all financial markets provides good entry levels and we are likely to use this opportunity to add more growth assets to our portfolio.

Charles de Kock and Mark le Roux
Portfolio Managers

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**as at 30 June 2008**

| | | | |
|---|---|---|---|
| Fund category | Domestic Asset Allocation<br>Prudential Low Equity | Portfolio manager/s | Charles de Kock and Mark le Roux |
| Fund description | The fund aims to provide a reasonable level of current income and seeks to preserve capital in real terms, with lower volatility over the medium to long-term. | Fund size | R225.5 million |
| | | NAV | 103.68 cents |
| | | Benchmark | Alexander Forbes 3-month (STeFI) Index plus 3% p.a. |
| Launch date | 1 February 2007 | | |

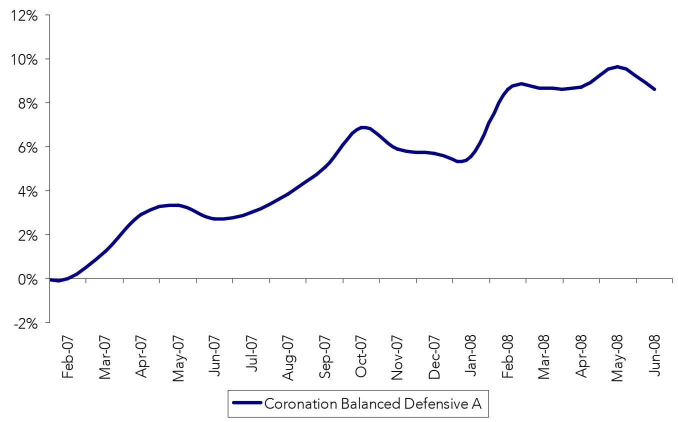
## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

| Sector | 30 June 2008 |
|---|---|
| Domestic Assets | 87.84% |
| Equity | 15.20% |
| Oil & Gas | 0.93% |
| Basic Materials | 2.87% |
| Industrials | 2.28% |
| Consumer Goods | 2.57% |
| Healthcare | 0.12% |
| Consumer Services | 3.35% |
| Telecommunications | 1.00% |
| Financials | 2.08% |
| Derivatives | 0.00% |
| Preference Shares & Other Securities | 5.15% |
| Real Estate | 1.40% |
| Fixed Interest | 8.72% |
| Cash | 57.37% |
| International Assets | 12.16% |
| Equity | 6.22% |
| Cash | 5.94% |

## PERFORMANCE AND RISK STATISTICS[1]

### CUMULATIVE PERFORMANCE SINCE INCEPTION




### TOP 10 HOLDINGS

| As at 30 June 2008 | % of Fund |
|---|---|
| Coronation World Equity Fund | 5.88% |
| Standard Bank Group Ltd | 1.51% |
| ABSA Preference Shares | 1.47% |
| Naspers Ltd | 1.25% |
| Remgro Ltd | 1.16% |
| Richemont Securities AG | 1.06% |
| Sasol Ltd | 0.93% |
| MTN Group Ltd | 0.81% |
| SAB Miller Plc | 0.79% |
| BHP Billiton Plc | 0.63% |
| Total | 15.49% |

### PERFORMANCE FOR VARIOUS PERIODS

| | Fund | Benchmark | Out-performance |
|---|---|---|---|
| Year to date | 2.77% | 6.97% | -4.20% |
| Latest 12 months | 5.74% | 13.63% | -7.89% |
| Since inception (Feb – Dec) | 6.40% | 13.32% | -6.92% |
| 2007 | 5.69% | 9.22% | -3.52% |

### INCOME DISTRIBUTIONS

| Declaration | Payment | Amount | Dividend | Interest |
|---|---|---|---|---|
| 30/06/2008 | 01/07/2008 | 1.52 | 0.12 | 1.40 |
| 31/03/2008 | 01/04/2008 | 1.36 | 0.22 | 1.14 |
| 31/12/2007 | 01/01/2008 | 1.13 | 0.04 | 1.09 |
| 30/09/2007 | 01/10/2007 | 1.33 | 0.30 | 1.03 |

### RISK STATISTICS SINCE INCEPTION

| | Fund | Benchmark |
|---|---|---|
| Annualised deviation | 3.63% | N/A |
| Sharpe ratio | -1.24 | N/A |
| Maximum gain | 4.03% | N/A |
| Maximum drawdown | -1.26% | N/A |
| Positive months | 68.75% | N/A |

### MONTHLY PERFORMANCE RETURNS

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund 2008 | -0.16% | 2.91% | 0.08% | 0.02% | 0.85% | -0.92% | | | | | | |
| Fund 2007 | | | 1.25% | 1.66% | 0.40% | -0.60% | 0.29% | 0.81% | 1.17% | 1.71% | -0.93% | -0.17% |

## FEES (excl. VAT)

| | |
|---|---|
| Initial Fee | Coronation: 0.00% |
| Annual Management Fee* | 1.50% |
| * 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] | 1.99% |

Annual management fee discount:

If the fund delivers a negative return over a rolling 12-month period, then Coronation will forego the total annual management fee.

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.


CLIENT SERVICE: 0800 22 11 77 FAX: (021) 680 2500 EMAIL: unittrusts@coronation.co.za WEBSITE: www.coronation.com