

The Coronation Equity Fund had a reasonable quarter, with the fund returning 30.5% for the rolling five year period compared to 32.0% from the benchmark. Over the last 5 years the fund's unit price is up 3.8 times. This has been an extraordinary period in which investors have made tremendous returns from the biggest commodity cycle in history.

The global environment deteriorated significantly over the last quarter. Growth is slowing, inflation is on the rise and central banks are reluctantly responding with interest rate hikes (particularly in emerging markets where monetary policy has been too expansionary). Debt levels are high and the deleveraging process will constrain growth for some years to come.

The local environment is just as challenging. The consumer is on the brink of recession after having to absorb 10 interest rate hikes over the last 2 years. Inflation, principally food and energy, is crippling the low end of the market. Finally, to add salt to the wounds, sentiment and confidence has been damaged by the political uncertainty we are experiencing as the ANC transitions itself to a new leadership.

We live in an uncertain world in which forecasts have less value than we often like to acknowledge. In Richard Oldfield's book, 'Simple but not easy', he notes that:

- Western Union believed in 1876 that the telephone had too many shortcomings to be seriously considered as a means of mass communication.
- HM Warner of Warner Brothers asked an audience in 1927 who the hell wanted to hear actors talk.
- In 1943 IBM forecasted a world market of no more than 5 computers.

Market sentiment has swung from euphoria to despair. The optimistic forecasts of just over a year ago have evaporated as the economic environment has soured. In times like this it is important to remind ourselves of what we do know:

- After 5 asset-friendly years (low inflation and strong growth) the environment has deteriorated.
- Markets have ruthlessly discounted this information as they have endured wave after wave of selling pressure (Chinese Shanghai Exchange down 54% from its peak, JSE Financial Index 40%, India 37%, Nikkei 29%, Dax 21%, FTSE 20%, S&P 20%).

Managing retirement capital in this environment is not easy. We need to preserve the real value of hard-earned savings. But we believe that we also need to take advantage of the long term opportunity that markets are currently presenting. Buying quality assets at low prices is the route to wealth creation. The pendulum has swung from greed to fear. Investors have capitulated – they are now giving equities away with little regard for valuation. We do not expect the macro environment to improve in the near term. We also do not know when markets will turn.

What we do know is that equities are cheap. It has been 20 years since global equities traded at such low ratings and the margin of safety is now large. While it is tempting to turn to cash, our highest conviction view is to stay invested in equities – whether it be European, US, Japanese or Emerging Markets.

Local equities returned 3.4% for the quarter. This benign number (once again!) masks strongly divergent sector moves. Resources performed strongly, returning 13%. Anglo American, BHP Billiton, Sasol and ArcelorMittal performed strongly as commodities surprised with their resilience in a deteriorating economic environment. We remain underweight resource stocks and overweight industrials and financials, where we are currently finding great long-term value. Gold shares once again performed poorly and we have started to build a position in this sector for the first time in many years.

Financials (-15%) and industrials (-3%) had a torrid quarter. Ratings have now declined to levels last seen in early 2003. The selling pressure has been indiscriminate, with many high quality, defensive, companies coming under as much pressure as interest rate-sensitive companies with high levels of operational gearing. We continue to find great quality companies with excellent management teams at very attractive prices (examples include Discovery, AVI, Spar and Reunert).

In summary, while it is tempting to 'sit on the sidelines' until markets stabilise and the outlook improves, we believe that current prices are compelling. The cycle will turn. Buy low, sell high.

**Karl Leinberger**  
**Portfolio Manager**

**Fund category** Domestic Equity General  
**Fund description** An emphasis on active stock selection and will remain fully invested in domestic equities at all times.  
**Launch date** 15 April 1996

**Portfolio manager** Karl Leinberger  
**Fund size** R1.9 billion  
**NAV** Class A: 6475.04 cents  
**Benchmark** FTSE/JSE Shareholders Weighted All Share Index

**PORTFOLIO DETAIL**

**EFFECTIVE ASSET ALLOCATION EXPOSURE**

Sector	30 June 2008
<b>Domestic Assets</b>	<b>100.00%</b>
<b>Equity</b>	<b>98.41%</b>
Oil & Gas	4.23%
Basic Materials	24.21%
Industrials	14.90%
Consumer Goods	15.04%
Healthcare	3.77%
Consumer Services	15.99%
Telecommunications	4.23%
Financials	14.49%
Derivatives	1.55%
<b>Real Estate</b>	<b>1.44%</b>
<b>Cash</b>	<b>0.15%</b>

**TOP 10 HOLDINGS**

As at 30 June 2008	% of Fund
Naspers Ltd	8.73%
Standard Bank Group Ltd	6.93%
BHP Billiton Plc	5.69%
Impala Platinum Holdings Ltd	5.64%
Richemont Securities AG	5.36%
Remgro Ltd	4.89%
SABMiller Plc	4.39%
MTN Group Ltd	4.23%
Sasol Ltd	4.23%
Anglo American Plc	3.19%
<b>Total</b>	<b>53.28%</b>

**INCOME DISTRIBUTIONS**

Declaration	Payment	Amount	Dividend	Interest
31/03/2008	01/04/2008	21.34	20.04	1.30
30/09/2007	01/10/2007	45.59	44.43	1.16
31/03/2007	01/04/2007	32.37	31.07	1.30
30/09/2006	01/10/2006	70.52	69.60	0.92

**MONTHLY PERFORMANCE RETURNS**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2008	-8.91%	9.16%	-3.53%	3.79%	2.28%	-6.72%						
Fund 2007	5.58%	-0.19%	5.32%	4.45%	-0.55%	-1.47%	0.00%	1.49%	2.33%	7.91%	-5.85%	-2.72%
Fund 2006	8.41%	-1.16%	4.57%	1.94%	-5.13%	-0.41%	-0.12%	3.41%	1.72%	7.18%	4.26%	5.92%

**FEES (excl. VAT)**

<b>Initial Fee*</b>	Coronation: 0.00% (Direct)
<b>Annual Management Fee**</b>	Class A: 1.25% Class R: 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)<sup>2</sup>**

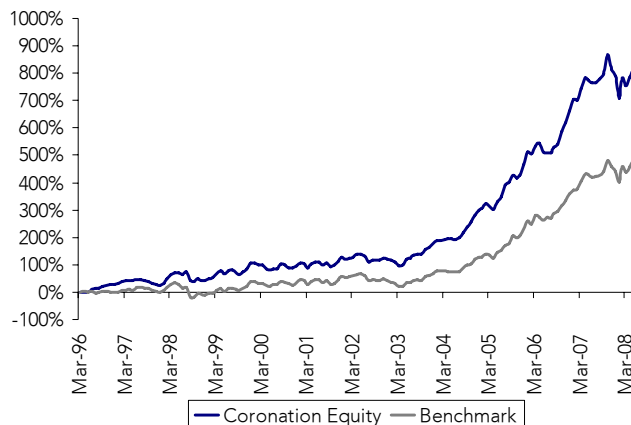
Class A: 1.44% per annum  
Class R: 1.15% per annum

**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	-5.01%	-0.51%	-4.50%
Latest 12 months	-2.50%	3.39%	-5.89%
Latest 36 months (annualised)	23.27%	28.45%	-5.18%
Latest 60 months (annualised)	30.45%	32.00%	-1.55%
Since inception (annualised)	19.12%	14.62%	4.50%
2007	16.60%	18.06%	-1.46%
2006	34.20%	39.27%	-5.07%
2005	42.31%	44.86%	-2.55%
2004	42.88%	33.90%	8.98%

**RISK STATISTICS SINCE INCEPTION**

	Fund	Benchmark
Annualised deviation	16.65%	20.36%
Sharpe ratio	0.42	0.13
Maximum gain	47.40%	43.48%
Maximum drawdown	-20.49%	-41.00%
Positive months	63.70%	60.96%