

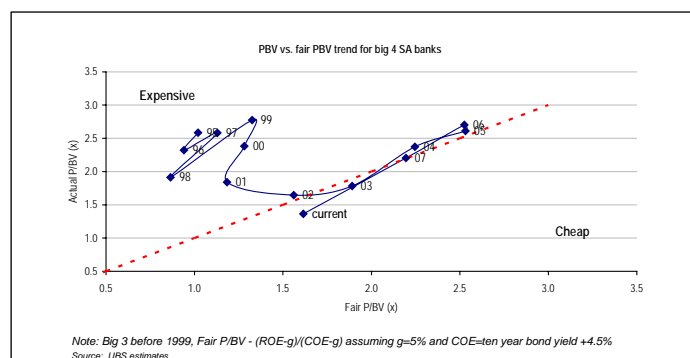
Investors in the fund are probably as despairing reading quarterly commentaries lately as we are writing them. Financial sector share prices continue to decline; for the quarter to June the index return was -14.5%, making this the fifth consecutive quarter of negative returns. While global equity markets have been under pressure over the last six months, it is the financial stocks that have borne the brunt of this. Once again it is worth putting the deviation in returns on the JSE into context: year-to-date resource shares are up 33% (driven by continued strength in commodity prices), industrial shares are down 9%, and the financial sector is down more than 25%. Against this backdrop, it may be some small consolation that the fund outperformed the index for the quarter, with a total return of -11.4%. Over one year, the fund has returned -24%, and over 3 years a compound annualised 9.1%.

The fund's performance for the quarter was aided by two factors:

- Its 3% holding in Liberty Holdings, the controlling shareholder of Liberty Group. Standard Bank, already a 59% shareholder in Liberty Holdings, in May offered to buy the shares it did not already hold at a 24% premium to the then market price, thereby eliminating the implied look-through discount to Liberty Group in the control structure. The fund will tender its shares into this offer.
- A relatively large weighting in financial stocks whose fundamental drivers are less directly linked to the domestic interest rate cycle and equity markets. These include holdings in PSG (the only other financial stock to deliver a positive return in the quarter), Remgro, Brait and Discovery.

We wrote in our previous commentary that we believed levels of profitability in domestic financial companies (with the exception of mark to market equity gains) were not abnormally high and that we were seeing the mechanics of a normal cycle at work. We continue to believe this to be the case, but it is probably fair to say that the cycle will be deeper and take longer to play itself out than we had previously believed. Since writing the March commentary we have seen two further 50 bps interest rate hikes, yet inflation remains stubbornly high. The Governor of the Reserve Bank has made it abundantly clear that fighting it remains his sole priority, and although we have seen signs suggesting that the medicine is starting to take effect, we would anticipate at least another 50 bps before the tightening cycle is complete. The indications are that the current down-cycle is looking like it will be tougher than that of 10 years ago: debt servicing costs as a percentage of disposable income are now approaching the peaks last seen in 1998. The important difference being that 1998 was a short-lived period of extreme tightening followed by rapid easing, somewhat softening the blow, whereas this time around the hikes have been more gradual and will probably remain in place for some time before easing starts.

At the risk of over-emphasizing the point, this is a normal (but reasonably severe) cycle, where earnings are not at an excessively high level. The cycle will turn at some point (that's what cycles do after all), yet it appears that share prices are factoring in some severe declines in profitability into perpetuity. We have written about price earnings ratios a lot in the past, so maybe it's worth having a look at another valuation metric: price to book value ratios. The chart below (courtesy of UBS) plots a 'snail trail' of the big 4 banks' P/BV ratios since 1995. These banks currently trade on average ratio of 1.35x historic book value, the lowest in the 13 year history (and interestingly significantly lower than the 1.9x multiple they traded on in 1998.) It is interesting to note how these multiples approached their lows in years of interest rate tightening (1998 and 2002) and how they re-rated strongly upwards thereafter. Based on UBS estimates of projected returns on equity over the next 12 months (now reduced and probably depressed given our comments in the previous paragraph) a fair P/BV multiple would be closer to 1.6x. Of course historic book values are susceptible to disappointments (due to large write-offs on their lending books) but bear in mind that a company would need to report a loss to reduce its book value, and this is a scenario we do not foresee at all. At worst, and despite our comments above, we believe bank earnings growth will be flat to slightly positive in the year ahead.



We continue to believe that financial shares offer compelling value. While it is difficult to say for how long this will be the case, we are firmly of the view that investors will in time look back on this period as an excellent opportunity to invest in the sector.

**Neill Young and Godwill Chahwahwa**  
Portfolio Managers

Fund category  
Fund description

Domestic Equity Financial  
Invests in a broad range of financial shares, including banks, insurance and investment companies.

Launch date

1 July 1998

Portfolio manager/s  
Fund size  
NAV  
Benchmark

Neill Young and Godwill Chahwahwa  
R210.2 million  
2035.40 cents  
FTSE/JSE Africa Financial Index

**PORTFOLIO DETAIL**

**EFFECTIVE ASSET ALLOCATION EXPOSURE**

Sector	30 June 2008
<b>Domestic Assets</b>	<b>100.00%</b>
<b>Equity</b>	<b>91.99%</b>
Industrials	3.41%
Financials	88.58%
<b>Real Estate</b>	<b>6.36%</b>
Cash	1.65%
<b>International Assets</b>	<b>0.00%</b>

**TOP 10 HOLDINGS**

As at 30 June 2008	% of Fund
Standard Bank Group Ltd	19.43%
FirstRand Ltd	11.63%
Old Mutual Ltd	10.26%
Discovery Holdings Ltd	7.56%
African Bank Investments Ltd	6.69%
Liberty International Plc	6.36%
Investec Ltd	5.12%
Absa Group Ltd	4.94%
Liberty Holdings Ltd	3.85%
Liberty Group Ltd	3.66%
<b>Total</b>	<b>79.50%</b>

**INCOME DISTRIBUTIONS**

Declaration	Payment	Amount	Dividend	Interest
31/03/2008	01/04/2008	38.10	37.03	1.07
30/09/2007	01/10/2007	10.40	9.58	0.82
31/03/2007	01/04/2007	48.55	47.47	1.08
30/09/2006	01/10/2006	46.90	45.39	1.51

**MONTHLY PERFORMANCE RETURNS**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2008	-13.50%	8.09%	-7.43%	1.55%	-3.55%	-9.49%						
Fund 2007	4.43%	0.27%	4.47%	6.87%	-3.85%	-4.77%	1.00%	-0.47%	-2.73%	12.21%	-5.75%	-4.19%
Fund 2006	7.01%	0.60%	3.69%	0.43%	-5.96%	-4.35%	2.94%	1.45%	1.68%	7.56%	3.63%	7.94%

**FEES (excl. VAT)**

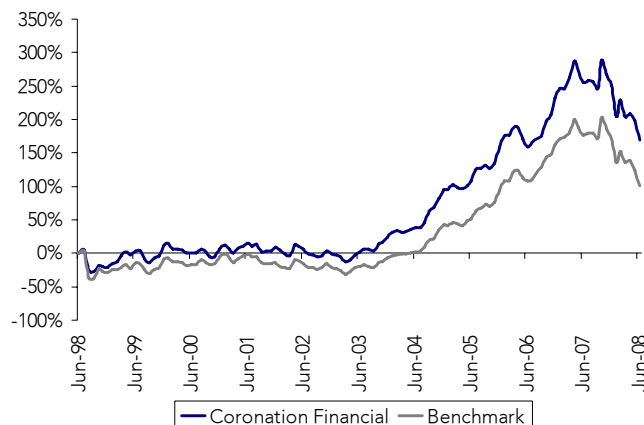
<b>Initial Fee*</b>	Coronation: 0.00% (Direct)
<b>Annual Management Fee**</b>	1.25%
<small>*An initial fee of 0.25% will be charged on all investments placed via administration platforms like Linked Investment Service Providers (LISPs).</small>	
<small>**A portion of Coronation's annual management fee may be paid to administration platforms like LISPs as a payment for administrative and distribution services.</small>	
<b>Total Expense Ratio (TER)<sup>2</sup></b>	1.44% 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	-23.27%	-25.48%	2.21%
Latest 12 months	-23.98%	-27.17%	3.19%
Latest 36 months (annualised)	9.14%	9.65%	-0.51%
Latest 60 months (annualised)	21.63%	19.87%	1.76%
Since inception (annualised)	10.43%	7.11%	3.32%
2007	6.06%	3.03%	3.03%
2006	28.83%	35.83%	-7.00%
2005	32.02%	34.69%	-2.67%
2004	57.09%	52.38%	4.71%

**RISK STATISTICS SINCE INCEPTION**

	Fund	Benchmark
Annualised deviation	22.08%	24.28%
Sharpe ratio	-0.03	-0.17
Maximum gain	53.63%	80.40%
Maximum drawdown	-30.89%	-39.78%
Positive months	59.17%	60.83%