

The outlook for the domestic economy has deteriorated as inflation remains stubbornly high and higher interest rates continue to bite. Confidence has waned and political uncertainty has aggravated an already fragile situation. These factors have culminated in an aggressive sell-off of domestic financial and industrial shares. Amid this sell-off, the fund delivered -7.37% for the quarter, compared to the benchmark return of -2.70%.

As investment returns attest, the bull market has ended. The duration of the bull market resulted in a 'rising tide that lifted all boats' and virtually all sectors delivered handsome returns. Over the last 12 months returns have diverged, with resource stocks continuing their rampant run and domestic stocks coming under significant selling pressure. We are of the view that this, despite the significant volatility, remains a normal cycle. Negative sentiment has found its way into the pricing of local equities to such an extent that they are currently priced for a material decline in earnings over the next few years. While there is no doubt that corporate earnings are under pressure, we have been able to find many quality companies with strong franchises and good earnings prospects at very attractive ratings.

The fund remains defensively positioned with large holdings in Bidvest Group, Tiger Brands and Famous Brands. Approximately a third of Bidvest's value is derived from its offshore food service business. This is a high quality, diversified business, unaffected by a deteriorating domestic economy, which an investor is able to buy on a South African rating. The terminal and services businesses have low capital requirements and generate high returns. These businesses are exposed to the corporate sector and tourism industry and not directly to the consumer. McCarthy Motors, operating in an industry that is falling on tough times, makes up less than 10% of the value. We believe that Bidvest is extremely undervalued and have added to our holding during the quarter on the back of price weakness.

We added to the defensiveness of the fund with new buys in Spar and Shoprite Holdings. These businesses, despite being beneficiaries of rampant food inflation, are down 23% and 17% off their respective peaks – further evidence of the panic selling that has plagued our market. Spar continues to grow its volumes and take market share as its predominately rural footprint benefits from an increasingly affluent consumer. Approximately 12% of Shoprite's value sits in its African operations, which is currently benefiting from the enormous wealth created by the commodity boom. Locally, Shoprite also benefits from downtrading as consumers feel the pinch of rising fuel prices and interest rate hikes.

Given the deteriorating macro environment, the fund remains positioned for rand weakness, with approximately 38% of the fund in rand hedges such as Naspers, Richemont and Mobile Industries. Naspers continues to be an anchor tenant of the fund. The Pay-TV business (a third of which is Africa) remains a large component of the valuation. This is an annuity-based, defensive business that generates large amounts of cash. Management has a proven track record of making good acquisitions. Its first foray into the internet space was via the acquisition of Tencent, the value of which has increased one hundred fold over a period of six years. This position has been strengthened through the acquisition of Tradus, which will add another growth vector as it expands rapidly into emerging markets such as China, Poland and Russia.

On the sales side, we reduced our holding in ArcelorMittal on the back of significant share price appreciation, the proceeds of which were deployed into more attractive opportunities. We also switched some of Woolworths into more defensive food retailers such as Spar and Shoprite. Woolworths remains a significant holding with troubles in clothing masking a great food business that constitutes half of the valuation. Finally, we sold out of Steinhoff to fund better quality rand hedges such as Richemont and Bidvest.

As managers, we remain excited about the investment opportunities currently on offer. In a world of collapsing time horizons it is not always easy 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. The cycle will turn, and when it does, we intend to be correctly positioned in the stocks that offer long-term value.

The fund currently trades on a forward price earnings multiple of 8.5x and offers an attractive 68% upside to our assessment of fair value for the underlying counters. We know that the past two quarters have been bruising from a performance perspective, but we urge investors to stick to the proven principles of long-term investing. Buying high-quality assets at low prices is the route to wealth creation. The current negative sentiment and indiscriminate selling has provided us with this opportunity.

**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	R61.4 million
NAV	4261.97 cents
Benchmark	FTSE/JSE Africa Industrial Index

## PORTFOLIO DETAIL

## EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 June 2008
<b>Domestic Assets</b>	<b>100.00%</b>
<b>Equity</b>	<b>97.32%</b>
Basic Materials	4.56%
Industrials	32.30%
Consumer Goods	21.09%
Financials	1.06%
Healthcare	4.63%
Consumer Services	27.02%
Telecommunications	5.50%
Technology	1.16%
<b>Cash</b>	<b>2.68%</b>

## TOP 10 HOLDINGS

As at 30 June 2008	% of Fund
Bidvest Group Ltd	7.06%
Naspers Ltd	6.54%
Richemont Securities AG	6.33%
Mobile Industries Ltd	6.20%
MTN Group Ltd	5.50%
Famous Brands Ltd	5.30%
Tiger Brands Ltd	5.26%
SAB Miller Plc	5.25%
Remgro Ltd	4.44%
Woolworths Holdings Ltd	4.11%
<b>Total</b>	<b>55.99%</b>

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
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
30/09/2006	01/10/2006	38.88	35.09	3.79

## 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%						
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)

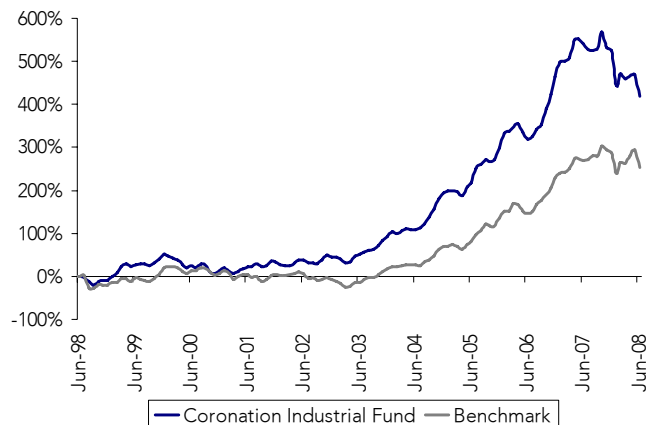
Initial Fee*	Coronation: 0.00% (Direct)
Annual Management Fee**	1.00%
*An initial fee of 0.25% will be charged on all investments placed via administration platforms like Linked Investment Service Providers (LISP's).	
**A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.	
Total Expense Ratio (TER) <sup>2</sup>	1.22% 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	-17.23%	-8.90%	-8.33%
Latest 12 months	-19.24%	-4.32%	-14.92%
Latest 36 months (annualised)	17.78%	24.49%	-6.71%
Latest 60 months (annualised)	27.96%	32.47%	-4.51%
Since inception (annualised)	17.88%	13.43%	4.45%
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	17.87%	21.40%
Sharpe ratio	0.38	0.11
Maximum gain	55.76%	61.72%
Maximum drawdown	-29.82%	-38.53%
Positive months	63.33%	65.00%