CORONATION SMALLER COMPANIES

Class R
as at 30 June 2008

It has been another tough quarter. The fund declined 13.6%, while the mid and small cap indices declined 9.8% and 14% respectively. For 2008 to date, the fund is down 30.5%. It feels as if investors/speculators are trampling over each other to sell their shares (particularly small cap shares), regardless of price or the underlying value of their investment. Single day share price declines of greater than 10% are not uncommon right now. I think we can safely say that there is a fair degree of panic selling going on. While it is difficult to stomach a 31% year-to-date decline in the value of your investment, we would urge investors to hang in there. The end of the world is not imminent.

It is useful to highlight the typical investor response to declining and rising share prices. When prices are rising, people feel good about investing. There is comfort in the herd and everyone is making money. Liquidity flows into the equity market push share prices up in this environment, and the cycle of higher prices attracting more money becomes self-fulfilling, despite the fact that shares have become more expensive. When share prices start declining, the opposite happens, with the departure of cash out of the equity market driving prices lower. The lower prices go, the more tendency there is to panic. Yes, the economic environment has deteriorated significantly in the past year on the back of a series of rate hikes, but this is a cycle that will turn. Astute investors use opportunities such as this to buy assets on the cheap. It is always difficult to get the timing exactly right, but for an investor with a longer time horizon, we are confident that we will look back on this period as having been a very good opportunity to accumulate shares.

It is interesting to look back in history for the last big buying opportunity in mid and small cap shares. In 2002, the prime interest rate increased by 4% from 13% to 17%. In June 2003, the rate cycle turned with the first rate cut in that month. The mid cap index bottomed in April 2003, having remained flat for the past year as rates were hiked. From April 2003 to June 2007, the mid cap index returned 43% compound per annum, driven by a 6.5% decline in interest rates. It would seem then that it is important to assess when the current rate hiking cycle will end as this could signal the end of these tough times. The interest rate cycle is driven by the inflation rate, which is sky high at the moment, hence the high interest rate. However, as we move into 2009, the primary drivers of inflation, the high oil and food prices, become part of the base off which inflation is measured going forward. So, if the oil price comes back to US$120 per barrel next year, this might well contribute to deflation (imagine that!). While it is very difficult to forecast things like the oil and maize price, we would contend that, off this high base, there is more risk to the downside than there is to the upside. As such, we forecast that inflation will peak towards the end of this year, which means that interest rates should follow suit shortly thereafter. As we know, the economy, consumers and the equity market thrive in a cycle of declining interest rates. Consequently, we think investors should start positioning themselves for this cycle rather than taking money off the table at this stage.

To illustrate the state of the market at the moment, a case study on Iliad, a retailer of building materials, is very interesting. As we know, in July 2007, Iliad was the subject of a failed private equity bid at R24.50. Today, it trades 68% lower than this level at R7.94. Yes, the market for the bulk of Iliad's products has become a lot tougher than a year ago, but this is a quality company with a fantastic track record. On our earnings forecasts, the company now trades on a 5 times 1 year forward PE. This does not feel like rational investor behaviour to me. There are many more examples I could highlight. The bottom line is that there are some fantastic opportunities in the mid and small cap space right now.

The fund now trades on a 1 year forward PE of 7 times, the lowest level since I began managing the fund in early 2005. To end off, I borrow a comment from Michael Lewis, a market commentator.

"The first thing you need to know about recessions is that they don't signal the end of anything on Wall Street. They're more like a red flag during a Formula One race: The cars coast gently around the track until the wreckage is cleared whereupon they all roar off as if the accident never happened. The difference is that, on Wall Street, it's possible to make the disaster work for you. You can inch your car quietly forward so, when the race recommences, you're its surprise leader."

Alistair Lea
Portfolio Manager

CORONATION SMALLER COMPANIES

Class R

as at 30 June 2008

CORONATION FUND MANAGERS

Fund category	Domestic Equity Smaller Companies	Portfolio manager	Alistair Lea
Fund description	Invests in small and mid capitalisation companies, developing industries and recovery shares.	Fund size	R118.3 million
		NAV	3273.48 cents
		Benchmark	Composite benchmark: FTSE/JSE Africa Mid & Small Cap Indices
Launch date	1 April 1997		

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 June 2008
Domestic Assets	100.00%
Equity	97.89%
Basic Materials	7.29%
Industrials	49.52%
Consumer Goods	13.22%
Healthcare	1.56%
Consumer Services	19.02%
Financials	2.46%
Technology	4.82%
Cash	2.11%

TOP 10 HOLDINGS

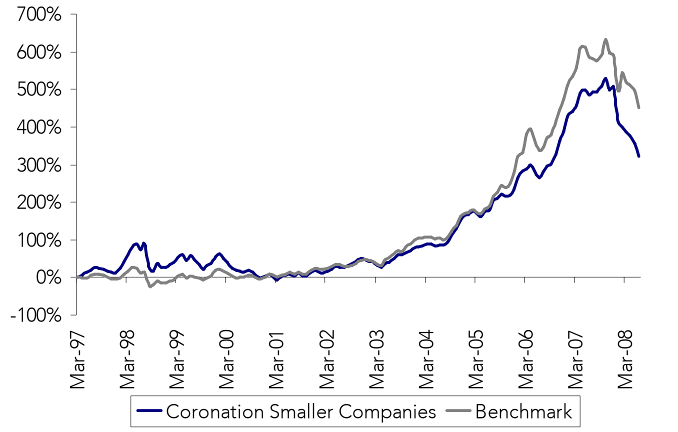
As at 30 June 2008	% of Fund
Sea Kay Holdings	5.29%
Omnia Holdings Ltd	5.22%
Mobile Industries Ltd	5.02%
Iliad Africa Ltd	4.84%
Famous Brands Ltd	4.80%
Spar Group Ltd	3.98%
Astrapak Ltd	3.71%
Woolworths Holdings Ltd	3.66%
Amalgamated Appliance Holdings	3.63%
Reunert Ltd	3.52%
Total	43.67%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
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
30/09/2006	01/10/2006	24.70	22.43	2.27

PERFORMANCE AND RISK STATISTICS[1]

CUMULATIVE PERFORMANCE SINCE INCEPTION



PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	-30.51%	-20.15%	-10.36%
Latest 12 months	-28.05%	-19.53%	-8.52%
Latest 36 months (annualised)	14.65%	21.52%	-6.87%
Latest 60 months (annualised)	24.49%	28.89%	-4.40%
Since inception (annualised)	13.64%	16.16%	-2.52%
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%	19.71%
Sharpe ratio	0.09	0.23
Maximum gain	67.21%	62.56%
Maximum drawdown	-50.21%	-38.18%
Positive months	62.96%	60.74%

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%						
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]	1.18% 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.

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