

The fund continued to navigate through choppy waters during the quarter. While fundamentals remain sound, sentiment towards preference shares did not improve during this period. We note that the illiquidity of the preference share market is an ongoing problem and causes the prices to be more volatile than necessary. The aggressive selling in an already illiquid market in January and February exacerbated this volatility, and may be linked to the tax year-end as investors sought to get their affairs in order for the purposes of tax calculations.

Investor uncertainty with regards to the tax status of preference shares in the future and switching out of preference shares into now cheaper ordinary shares also explains some of the pressure on this market. In this environment, the fund returned -2.32% for the quarter, underperforming the benchmark 3-month STeFI return of 1.58% and the Deutsche Bank index which came in at -1.66%.

The returns in the index were characterised by strong performance from the big banks' preference shares, such as those issued by Standard and Absa Banks and very weak returns from the smaller institutions like African Bank and Investec Bank. In the absence of a JSE-listed index, the fund is only able to invest to a maximum of 10% in each instrument and therefore unable to achieve the higher weightings that the big banks represent in the overall preference share market. This has been the main detractor of performance for the fund when compared to the Deutsche Bank index during the quarter. The fund has however outperformed this index since inception. We expect that this will be resolved once the JSE launch a market capitalisation weighted index of preference shares later this year.

The Coronation Preference Share Fund distributes income quarterly, with the first and third quarter distributions being larger due to the semi-annual dividend payment periods shared by most of the bigger holdings in the fund. During the quarter the fund received dividends from Absa Bank, Firststrand Bank, Nedbank, PSG, Grindrod, Astrapak and Imperial Holdings. These dividends, together with interest earned on cash balances, (which are kept to a minimum in the fund), have been distributed to investors. Quarterly distributions from the fund will always represent actual dividends received and are therefore not expected to show a linear pattern quarter on quarter.

Most perpetual preference shares pay a dividend calculated as a percentage of the prime rate. Thus the 1.5% rise in the prime lending rate in the second half of last year (post July) has started to come through as larger dividend payments and higher preference share yields. Price weakness in the preference share market translates into a rising forward yield on preference shares. Bank preference shares now yield between 10.9% and 13.1%, while the corporate preference shares yield between 12.6% and 14.3%. These are very attractive after tax yields especially for investors paying a high marginal tax rate. The fund affords investors the opportunity to invest in a diversified mix of bank and corporate preference shares at a current estimated gross yield of 12%.

We actively seek out opportunities to further enhance the yield on the fund without unduly increasing risk. While such opportunities have been limited this quarter, we introduced the Investec Bank Plc preference share into the fund. This share offers UK sterling denominated distributions which will act as a rand hedge should the rand/sterling exchange rate weaken, but has fallen significantly in price in recent months due to credit concerns with the issuer which we are comfortable should not impact the preference share. At the prevailing price we believe that this share now offers good value, an attractive yield for UK Sterling exposure (11%) as well as a much needed currency hedge for the fund.

Uncertainties around the intended changes to STC continue to plague the preference share market despite the assurances given by issuers that investors should not be negatively impacted. We are confident that the fundamentals around these instruments are sound and that they offer attractive returns for the investor that is prepared to take a long term view, and in the words of Warren Buffet 'are prepared to be greedy when others are fearful'.

¹Deutsche Bank has calculated and maintained for us a market cap weighted index of all the preference shares whose issue size exceeds R10,000.

Tania Miglietta and Godwill Chahwahwa
Portfolio Managers

CORONATION PREFERENCE SHARE

Class A
as at 31 March 2008

CORONATION
FUND MANAGERS

Fund category
Fund description

Domestic Fixed Interest Varied Specialist
Invests in a range of quality listed preference shares with the aim of maximising yield in the form of dividend income.

Launch date

2 October 2006

Portfolio manager/s

Tania Miglietta and Godwill Chahwahwa

Fund size

R196 million

NAV

90.63 cents

Benchmark/performance fee hurdle

Alexander Forbes 3-month (STeFI) Index, adjusted for maximum individual tax rate

PORTFOLIO DETAIL

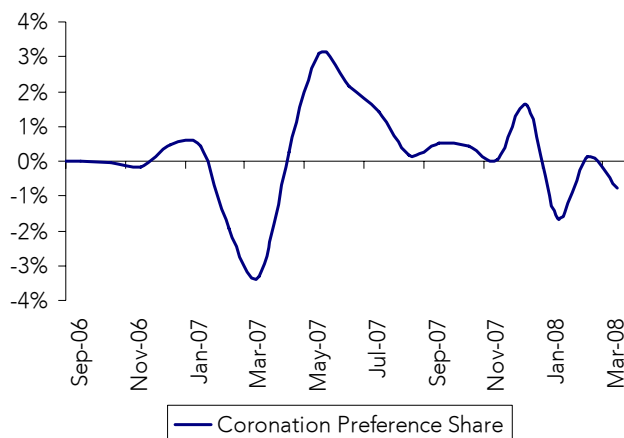
ASSET ALLOCATION AND EXPECTED EFFECTIVE YIELD

As at 31 March 2008	Weight	Annualised Yield	Contributions to overall yield
Bank issued preference shares	60.01%	11.85%	7.11%
Corporate issued preference shares	31.92%	12.51%	3.99%
Convertible preference shares	1.84%	14.32%	0.26%
Ordinary equity	0.00%	0.00%	0.00%
Cash (pre-tax)	6.24%	11.20%	0.70%
Gross yield			12.06%
Less: Total expense ratio ²			(0.73%)
Less: Trading costs ²			(0.50%)
Net expected effective yield			10.83%

This yield estimate is provided to give an indication of the achievable yield for an investment made at the reporting date. Actual experience may differ, based on changes in market values, official interest rates and changes in costs actually experienced during the investment period.

PERFORMANCE AND RISK STATISTICS¹

CUMULATIVE PERFORMANCE SINCE INCEPTION



TOP 10 HOLDINGS

As at 31 March 2008	Annual yield	Credit rating
Preference Share		
Absa Bank Ltd	11.1%	AAA
Standard Bank Group	10.8%	AA+
FirstRand Bank Ltd	11.6%	AA
Nedbank Ltd	11.5%	AA-
Investec Ltd	12.6%	A+
African Bank	13.3%	A+
Investec Non Red Cum Ltd	12.5%	A+
Network Healthcare Ltd	12.5%	A
PSG Group Ltd	12.6%	A-
Grindrod Ltd	12.6%	BBB+

PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	-2.32%	1.59%	-3.91%
Latest 12 months	2.63%	6.03%	-3.40%
Since inception (annualised)	-0.51%	5.70%	-6.21%
2007	1.11%	5.64%	-4.53%
2006 (October – December)	0.49%	1.22%	-0.74%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31/03/2008	01/04/2008	2.91	2.82	0.09
31/12/2007	01/01/2008	1.49	1.42	0.07
30/09/2007	01/10/2007	2.46	2.40	0.06
30/06/2007	01/07/2007	1.44	1.34	0.10

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised deviation	5.89%	0.27%
Sharpe ratio	-1.81	-2.46
Maximum gain	6.62%	14.60%
Maximum drawdown	-4.59%	0.00%
Positive months	33.33%	100.00%

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2008	-3.18%	1.79%	-0.89%									
Fund 2007	-0.07%	-2.32%	-1.41%	3.66%	2.86%	-0.91%	-0.75%	-1.23%	0.37%	-0.08%	-0.40%	1.56%
Fund 2006										-0.02%	-0.17%	0.68%

FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee	0.60%
Total Expense Ratio (TER)¹	0.73% per annum