

The first quarter of 2008 has been particularly disappointing, with the fund declining 19.5%, while the mid and small cap indices declined 12% and 11% respectively. This underperformance requires explanation.

One of the prime drivers (on the upside) of the market during the quarter was the 19% depreciation of the rand from R6.80 to the US dollar, to R8.10 at quarter-end. This move in the currency caused resource counters to perform very well. The three largest resource counters in the benchmark, Northam, Mvela Resources and Hiveld Steel were up 74%, 50% and 47% respectively. Resources make up some 12% of the benchmark, while the fund's weighting in resources is a mere 2%. In a quarter where resources counters performed fantastically, the fund suffered.

While we have generally been bearish on the rand, we have been equally bearish on commodity prices; believing that they are in general well above long-term normal levels. As such, we have been reluctant to invest in resource shares and have preferred to take our rand hedge exposure by investing in industrial rand hedge counters, which we believe offer more upside in the long-term. However, these counters are not geared to the rand in that they do not have rand cost bases and dollar revenue streams. They are mainly offshore businesses with dollar cost bases and revenue streams, making them dollar 'translators'. Our biggest holding in this area, Mobile, was flat for the quarter, which we are disappointed with and indicates how differently the rand 'translators' performed relative to the rand 'geared' stocks. Some consolation is that these industrial rand hedge shares performed better than counters exposed solely to the local market.

The prime driver of the market on the downside was probably the continued pressure on companies selling goods to a fast deteriorating consumer. In addition to a series of interest rate hikes and the onset of the NCA (National Credit Act), consumer sentiment has been further hit by a new barrage of factors, Polokwane (political uncertainty), the Eskom crisis, a very wet January in Gauteng and the continued high levels of crime in SA. This has caused some sharp declines in various counters in the portfolio, some of which we list:

Amaps -40%, Country Bird -36%, Nu-World -42%, Iliad -23% and Famous Brands -26%.

We would argue that now is the time of maximum pessimism for the two consumer electronic and appliance distributors held by the fund, Amaps and Nu-World. Yes business is incredibly tough at the moment, but both counters now trade below NAV. We remain optimistic that in the medium term, conditions will become more favourable for these two companies and that from these levels they will be good investments.

Iliad is one of the largest positions in the fund. Six months ago a private equity company offered R24 per share for the entire company, today it trades below R11 a share! 2008 will be a more difficult year for the company following a fantastic 2007. But even factoring in flat earnings, the counter is trading on a one-year forward P:E of less than 7 times.

Famous Brands is a company we like a lot. It has a defensive (people still eat in tough economic times) earnings stream, is a fantastically well managed business and seems to have made a very astute and shareholder value enhancing acquisition of Wimpy in the UK. For the premium business we believe it is, the current rating of less than 9 times forward is very attractive.

Country Bird, like all the chicken stocks, has come under considerable pressure in the past quarter. High maize prices which are not translating into higher selling prices due to industry overcapacity and weakening demand has caused the outlook for chicken stocks to decline. The future also looks uncertain, with global maize prices reaching new highs. The industry might well need to adjust to structurally higher feed input costs and lower returns than those achieved in the past three years. Despite this, Country Bird has a huge opportunity to grow its business in Africa, while the feed business is in its infancy and should be a much more profitable business in two to three years time.

Where to from here?

We have not changed our view on the best way to position the fund for rand weakness. We continue to believe that the resource counters are overvalued, primarily because of overheated commodity prices. This, coupled with the depreciation in the rand, causes us to see fit not to change our resource underweight.

A 20% decline in a single quarter justifies some raised eyebrows. It is important to bear in mind that the long-term value of a business seldom changes much over a period of three months, and as such, in theory the fund is 20% more attractively valued today than at the start of the year. The fund now trades on a forward P:E ratio of 7.8 times, off of its peak of 11 times reached in the first quarter of 2007 and down from its 9.5 times level at the start of the year. While we still believe that the earnings base of corporate SA is likely to remain under pressure for a while still, we would argue that this is now being priced in by the market.

Alistair Lea
Portfolio Manager

Fund category
Fund descriptionDomestic Equity Smaller Companies
Invests in small and mid capitalisation
companies, developing industries and
recovery shares.
1 April 1997

Launch date

Portfolio manager
Fund size
NAV
BenchmarkAlistair Lea
R150.9 million
3816.66 cents
Composite benchmark: FTSE/JSE
Africa Mid & Small Cap Indices

PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Mar 2008
Domestic Assets	100.00%
Equity	96.51%
Basic Materials	5.83%
Industrials	48.32%
Consumer Goods	13.86%
Healthcare	1.56%
Consumer Services	18.19%
Financials	3.66%
Technology	5.09%
Cash	3.49%
International Assets	0.00%

TOP 10 HOLDINGS

As at 31 March 2008	% of Fund
Mobile Industries Ltd	6.01%
Sea Kay Holdings	5.82%
Famous Brands Ltd	5.14%
Iliad Africa Ltd	4.71%
Omnia Holdings Ltd	4.05%
Woolworths Holdings Ltd	3.80%
AVI Ltd	3.45%
Reunert Ltd	3.44%
Country Bird Holdings Ltd	3.38%
Spar Group Ltd	3.29%
Total	43.09%

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

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2008	-15.34%	-2.52%	-2.51%									
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)

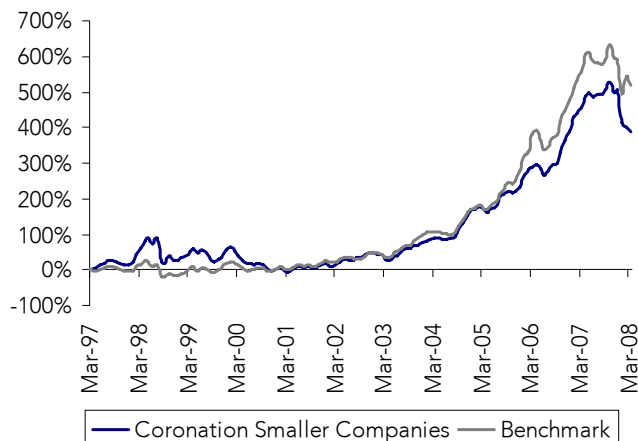
Initial Fee*	Coronation: 0.00% (Direct)
Annual Management Fee**	1.00%
*An initial fee of 0.25% will be charged on all investments placed via administration platforms like Linked Investment Service Providers (LISP's).	
**A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.	
Total Expense Ratio (TER)²	1.19% 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 STATISTICS¹

CUMULATIVE PERFORMANCE SINCE INCEPTION



PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	-19.54%	-10.65%	-8.89%
Latest 12 months	-12.27%	-6.16%	-6.11%
Latest 36 months (annualised)	21.92%	29.21%	-7.29%
Latest 60 months (annualised)	29.76%	35.14%	-5.38%
Since inception (annualised)	15.49%	17.75%	-2.25%
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	0.16	0.30
Maximum gain	67.21%	62.56%
Maximum drawdown	-50.21%	-38.18%
Positive months	64.39%	62.12%