CORONATION GLOBAL EMERGING MARKETS FLEXIBLE

CLASS A as at 31 March 2012

CORONATION FUND MANAGERS

PORTFOLIO MANAGER COMMENTARY

After a tough end to 2011, global markets performed very well in the first quarter of the year. The fund had a net return (after fees) of 11.5% in rands for the same period compared to the rand return of its benchmark of 8.4%, delivering alpha of 3.1%. Since inception the fund has provided an annualised return of 5.7% (after fees), representing annual alpha of 4.6%. We are well into the fifth year since the fund's launch and its positive absolute and relative performance has been very pleasing given the high volatility of global markets during the intervening period.

During the quarter, we completed trips to China, Brazil and India where we met with several of our holdings. We also visited Macau, home to the gambling operations of portfolio holdings Melco Crown, MGM China and Las Vegas Sands. These three casino operators make up around 4.5% of the fund and are direct beneficiaries of the large increase in gambling activity that is taking place in Macau, the only region of China where gambling is permitted, and which is now a bigger gambling market (six times larger) than the city of Las Vegas. The Macau regional government continues to assist in the development of this former colony as a 'family friendly' gambling destination with new casino licences and substantial improvements in infrastructure to provide easier access for the population of mainland China as well as surrounding provinces.

The Indian consumer market offers vast potential given that millions of people are rising up the income scale every year. We met with several companies in Mumbai and Delhi, including our current portfolio holdings. We have always wanted to invest the Indian consumer product companies but have found valuations to be unreasonable. Over time these businesses have continued to grow their earnings at a very high rate, but some have not seen a proportionate increase in their share prices, so their valuations have actually declined to the point where they may now offer some upside. The same is true of some of India's IT services stocks, who have become world leaders in IT and business process outsourcing. We believe there are potential investments in both these industries and we are currently carrying out further research on two particular stocks to ascertain whether this initial optimism is justified.

The most fruitful trip was to Brazil early in the year. In addition to meeting senior management of many companies, we conducted site visits with several retailers and education provider Anhanguera (the fourth biggest position in the fund) in order to enhance our understanding of their operations. The Anhanguera visit and meeting with their CEO and CFO was very useful given that the business has completed several large acquisitions over the last year using the proceeds of their 2010 capital raising. We visited one of the acquired campuses and met with the Sao Paolo divisional manager, which provided additional insight into the operating environment of Anhanguera.

Our positive view on Brasil Foods was enhanced both by meeting with the company and by visiting a supermarket operated by Brazil's largest food retailer, Pao de Acucar. Brasil Food's products are omnipresent on their shelves and fridges. The store visit also helped confirm our view on the quality of their speciality meats operation, where the brand holds the no.1 position in Brazil by far, reaching 98% of the country's consumers.

The fund currently has 5.3% exposure to Lojas Renner and Marisa, fashion retailers with a focus on women's clothing and accessories. We like their business models for a number of reasons, not least of which is the fact that, like in South Africa, their position in the southern hemisphere reduces the risk of getting the fashion wrong, thereby avoiding the resultant inventory mark downs. Being one season 'behind' Europe and the US allows them to adapt successful northern hemisphere fashion for the Brazilian market. The industry as a whole is far behind more mature markets and we believe these companies will be able to continue to roll out store space over the next several years with little risk of cannibalising the existing store space. We are particularly positive about Marisa as they target the poorly serviced middle segment of the market, which now totals 100 million people, or half the Brazilian population. Marisa has successfully increased its store footprint and maintained profitability despite the fact that 40% of its stores are still in ramp-up phase. Valuations are very compelling as in our view these businesses can continuously grow earnings at a rate far above their cost of capital for the foreseeable future.

A final business worth discussing is Arcos Dorados, the McDonald's franchise holder for Latin America. Although this has been a fund holding since December, our conviction (and position size) increased during the quarter after visiting Brazil, the company's biggest market, and meeting with management in Argentina. The CEO of Arcos had previously been with McDonald's, running their Latin American operations for over 20 years and negotiated the division's sale in 2007. In most of the region McDonald's is the no.1 restaurant chain, competing primarily against small domestic brands that lack scale and the management capability inherent in a global operation. Spending on food services is growing much faster than the economy as a whole as people become wealthier and trade up, which should support solid sales growth. In addition, despite having close to 2 000 existing stores, the company still has no presence in hundreds of cities and towns throughout the continent. It should also be able to grow without consuming large amounts of capital as it does not own most of its locations, concentrating instead on leveraging the McDonald's brand into high returns on capital. Despite all the store rollouts of recent years Arcos has mostly generated free cash, a rarity for such a fast growing company. Arcos went public in the middle of last year at $17 per share and at one stage reached $28.50 in September before falling back to $18 in January. Very little has changed in the underlying fundamentals of the business, yet the share price has fallen by over a third from its peak. We owned no shares until December, but now have a 3.4% position in Arcos Dorados in the fund. This holding is reflective of the compelling long-term opportunity we believe exists for McDonald's in a young and growing market.

Portfolio managers

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