CORONATION FUND MANAGERS

## PORTFOLIO MANAGER COMMENTARY

The fund had a strong absolute performance in the final quarter of the year, delivering a return of 7.3% although this was behind the benchmark return of 8.4%. For the year the fund remained comfortably ahead of benchmark, delivering a return of 5.2% compared to 2.2% from the benchmark.

The major contributor to the fund's outperformance for the 12-month period was our position in British American Tobacco (BAT). This defensive, globally diversified business performed extremely well in the tough environment exhibited in 2011. This is important as BAT is a share that we have owned for a number of years. Our holding detracted from performance for a couple of years as the markets rallied strongly in the period following the global financial crisis, and ignored the compelling characteristics of BAT's strong cash generation and defensive earnings. It was only in the past year, as the magnitude of the world's economic troubles became properly appreciated, that the share outperformed strongly, assisted by the weakness of the rand.

In contrast, showing how the South African economy has to date been isolated from the global crisis to some extent, the second best performing holding in our fund for the year was Woolworths. This high end food and broad market apparel retailer has aggressively tackled its cost base and done a much better job on its assortments in clothing to deliver strong earnings growth with potential for more to come.

Finally, the other major positive contributor to performance was our holding in the branded food producer Tiger Brands. The company has emerged from a period of tough competition from imports in extremely good shape with a lean cost base and an impressive array of branded food products which are consistently rated as no. 1 in their respective categories. The market is also increasingly interested in their potential growth into sub-Saharan Africa.

Against this, our underweight position in Old Mutual detracted from performance. The share rallied strongly in the final month of the year as they managed to sell their Scandinavian operations for a better than expected price. We however remain unconvinced about the long-term potential for this business. We also had no exposure to Shoprite, which continued to perform extremely well on the back of high expectations for its African operations. Trading at over 20 times next year's earnings it looks extremely expensive.

Looking forward into 2012, we expect markets to remain volatile given the uncertain economic and political environment in all the major global economies. Against this uncertain environment we continue to focus on businesses that either have very defensive earnings, or those that already price in a very negative outcome.

In the former camp we would include BAT, Tiger Brands, SABMiller and MTN – all significant positions in the fund. In the latter camp would be domestic banks which are tainted by the global dislike for banks, even though they do not face the same risks. On 9 times earnings and dividend yields of 4% - 5%, they remain attractively priced investments.

What remains an interesting debate is the outlook for resources, and the impact on the commodity producers. Some measure of slowdown from China is already reflected in the price of most industrial commodities and very much so in the share prices of the producers. Given this we have continued to hold and added to the big diversified miners. We believe the valuations are such that even at much lower commodity prices there is still good value to be had.

We believe the fund is well positioned to continue to deliver exceptional market beating performance over the long term. The current volatility offers the active stock picker the opportunity to invest in great businesses at very attractive prices which will ultimately deliver the returns.

Portfolio managers
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