

# CORONATION PREFERENCE SHARE

**Class A**  
as at 30 June 2007

**CORONATION**  
FUND MANAGERS

**Fund category** Domestic Fixed Interest Varied Specialist  
**Fund description** 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** 98.75 cents  
**Benchmark/performance fee hurdle** Alexander Forbes 3-month (STeFI) Index, adjusted for maximum individual tax rate

## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Jun 2007
<b>Domestic Assets</b>	<b>100.0%</b>
Bank issued preference shares	50.9%
Corporate issued preference shares	41.7%
Ordinary equity	1.7%
Cash	5.7%

### TOP 10 HOLDINGS

Preference Share	Annual yield	Credit rating
Absa Bank Ltd	9.4%	AAA
Standard Bank Group	9.5%	AA+
Nedbank Ltd	9.5%	AA-
Imperial Ltd	10.2%	A+
African Bank	10.0%	A+
Investec Ltd	9.6%	A+
Investec Non Red Cum Ltd	9.5%	A+
Network Healthcare Ltd	10.1%	A
PSG Ltd	10.6%	A-
Grindrod Ltd	10.9%	BBB+

### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/06/2007	01/07/2007	1.44	1.34	0.10
31/03/2007	01/04/2007	2.04	1.96	0.08
31/12/2006	01/01/2007	1.23	0.89	0.34

### MONTHLY PERFORMANCE RETURNS

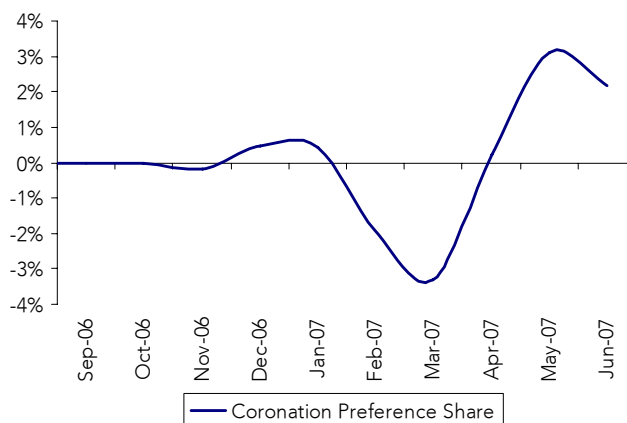
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2007	-0.07%	-2.32%	-1.41%	3.66%	2.86%	-0.91%						
Fund 2006										-0.02%	-0.17%	0.68%

### FEES (excl. VAT)

<b>Initial Fee</b>	Coronation: 0.00%
<b>Annual Management Fee</b>	0.60%
<b>Total Expense Ratio (TER)<sup>1</sup></b>	0.69% per annum

## PERFORMANCE AND RISK STATISTICS<sup>1</sup>

### CUMULATIVE PERFORMANCE SINCE INCEPTION



### PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	1.67%	2.58%	-0.90%
Since inception (annualised)	2.17%	3.85%	-1.69%
2006	0.49%	1.22%	-0.74%

### RISK STATISTICS SINCE INCEPTION

	Fund	CPIX
Annualised deviation	6.68%	0.12%
Sharpe ratio	-0.71	-4.56
Maximum gain	6.62%	0.00%
Maximum drawdown	-3.77%	0.00%
Positive months	33.33%	100.00%

**PORTFOLIO MANAGER COMMENTS**

After a rocky ride earlier this year, preference shares enjoyed a welcome recovery achieving a healthy return of 6.1%\* for the quarter. Investors, having processed the implications of the expected change to legislation around tax on dividends, again saw the value in these shares. Once the issuers publicly confirmed their intention not to penalise preference shareholders, the attractiveness of preference shares became apparent.

As forecasted in our last quarterly report, early April would prove to be an excellent time to buy preference shares. Prices have steadily risen since then. The Coronation Preference Share Fund performed well for the quarter, returning 5.7%, outperforming its benchmark, the after-tax STeFI (Short term fixed interest index) which returned 1.3%. In June the South African Reserve Bank hiked the repo rate once again by 0.5%, taking the prime rate to 13%. Since preference share dividends are linked to prime, coupons are immediately adjusted according to the new prime rate level, which in this instance moved higher.

Overall yields on preference shares continue to be attractive, currently providing between 9.4% and 10.8% in non-taxable yield. The difference in the yields reflects the difference in underlying credit risk between banks and companies. Bank preference shares typically carry a higher credit rating as they are seen to be less risky than regular companies. They therefore yield slightly less (around 9.4%). Company issued preference shares, perceived to be riskier, could yield an additional 1% or more (in this case, around 10.8%) for the added risk.

The Coronation Preference Share Fund seeks to manage portfolio risk, therefore as a rule will hold more bank than corporate preference shares. Importantly though, we monitor the relative pricing within the preference share universe and feel comfortable holding a relatively riskier asset if the liquidity and risks are fully compensated for in a low price. This is the basis of any investment decision and is carried through to the preference share market as well.

Preference shares are known for their lack of tradability. This is improving as issuance is growing. ABSA issued R1.4 billion of preference shares in early April at R847.34 per share or 75% of prime, which have since traded higher to R900 per share. This AAA-rated bank showed excellent investment value in early April.

Our interest rate outlook remains bearish, with another repo rate hike likely to take place in August. Preference shares prices could remain weak on this eventuality, but once the top of the hiking cycle is in view, preference shares are expected to perform well on renewed price strength.

The Coronation Preference Share Fund is well diversified, and positioned to further diversify its exposures if new companies issue preference shares. Our holdings in other high yielding investments permitted in the fund have proved their resilience and shown their contribution to reducing risk during the quarter. The fund offers investors a unique entry point into this market at lower overall costs, better liquidity and with active risk management.

*\*Deutsche Bank preference share index calculated for Coronation Fund Managers*