

The turmoil in both global and SA equity markets continued over the past few months. The oil price reached new highs which led to concerns of rising global inflation and subsequent rising interest rates and slower economic growth. This, all on top of the subprime mess of course. Global equities (MSCI World Index) had their worst first half in 25 years, the Dow Jones (US) index had its worst June since 1930 and the share price of General Motors fell to the level that it was trading in 1953. Even Warren Buffet was not immune, with the share price of Berkshire Hathaway falling by 20% over the past 6 months, its worst start to the year in the past 20 years.

Given this backdrop, Optimum has had a terrible past few months, particularly June which was the fund's worst month since inception. As a result, the shorter term performance of the fund (-4.3% over the past year), is very disappointing. The longer-term performance track record is more in line with the type of returns that we would expect, with the 3-year return being 14.3% per annum, the 5-year return 17.4% per annum and the annual return since inception of the fund over 9 years ago being 16.8%.

There has been very little in global stock markets (except a few commodity stocks) that have not gone down over the past few months. Similarly, most holdings in Optimum have declined, with the stock exchange operators being the mostly severely impacted (25% - 30% declines in June alone). As the exchanges make up 12% of the total fund this has had a significant impact on shorter-term performance and we believe it is therefore worthwhile re-addressing our views on the exchanges:

- The operators of stock exchanges are, in our view, some of the best businesses in the world due to: dominant (or even monopolistic) positions in many cases, pricing power, structurally increasing revenue lines over the longer-term, high operating margins and ROEs, and limited need for capital reinvestment with resultant great free cash flow generation.
- It is our view that whilst equity and derivative volumes and values will come under pressure at times during the short-term, over the longer term equity and derivative volumes and values will continue to increase. This is due to increasingly more short-term focused 'investors' (who therefore trade more), an ever increasing presence of hedge fund and quants fund, rising markets, and the ongoing launch of and demand for new products, particularly derivatives.

The table below shows YTD (Jan-May) equity value traded, YTD derivative volume growth as well as Dec 2008 and Dec 2009 P/Es and dividend yields for the eight listed stock exchange operators (out of 24 in total listed globally) held by Optimum:

	YTD growth equity traded	YTD growth deriv. volumes	P/E Dec 2008	P/E Dec 2009	Div yield Dec 2008	Div yield Dec 2009
Hong Kong E&C	+65%	+60%	17.5	15.8	5.0%	5.5%
Bovespa Holdings	+60%	0%	17.7	14.2	3.1%	3.8%
JSE	+30%	+90%	10.2	8.4	4.2%	4.7%
Hellenic Exchanges	-3%	-	7.7	7.5	8.2%	8.4%
NYSE Euronext	+35%	+30%	13.9	11.2	2.5%	2.8%
Nasdaq OMX	+22%	+7%	13.2	10.3	0.0%	0.0%
LSE	+10%	-	9.4	8.5	3.8%	4.4%
Deutsche Bourse	-2%	+24%	12.4	10.7	4.1%	4.7%
Average	+27%	+35%	12.8	10.8	3.9%	4.3%

Our observations from the above table would be:

- Equity and derivatives volumes and values are still very healthy with around 30% year-to-date growth. Yet the share prices have declined by 40% - 50% in most cases!
- The valuations are very attractive, with high single-digit or low double-digit P/Es in most cases and dividend yields of 4% or above.
- Shorter-term valuation metrics such as Dec 2008 or Dec 2009 P/Es actually understate the attractiveness of the exchanges in our view, due to the growth in years 3 -10.

With regard to the current concerns about the exchanges (volume declines and increasing competition), we believe firstly that whilst volumes may well decline over the shorter term, over the longer term they will continue to increase. Secondly, on the issue of increased competition, whilst there is no doubt that increasing competition will have a negative impact on the exchanges, we would also make the point that many of the fund's exchange holdings are monopolies (JSE, Hong Kong Exchanges, Bovespa Holdings and Hellenic Exchanges) and in the case of the exchanges facing more competition (NYSE Euronext, Nasdaq OMX, LSE and Deutsche Bourse) we would argue that the overall pie is growing and that the exchanges mentioned have very strong positions (technology, critical mass, provision of liquidity and resultant low spreads). They have fought competition before: the 90's saw the launch of a few small exchanges, none of which survived or were merely bought out by the large, well-capitalised exchanges (eg: NYSE buying Archipel).

In conclusion, we believe that the decline in the share prices of the exchanges has been driven by short-term fear and not by a deterioration in the long-term fundamentals of these businesses. It is our view that the several stock exchange operators held by the fund are, on average, worth double their current share prices and that current depressed levels provide a great opportunity for long-term investors.

As difficult as equity markets are at the moment and as disappointing as the fund's shorter term performance has been, it is our view that there is exceptional value in all of the fund's large holdings, with upside from current share prices to what we believe the businesses are worth typically being in the 50% - 100% range - not seen since 2003. As a result, we have maintained the fund's equity exposure in the mid-high 80% level, which in turn is at the high level of its historical range.

The consensus economic outlook in both South Africa and globally for the next year or two is terrible and it appears that the equity markets are directly (inversely) correlated with the oil price at the moment. We have no idea when the oil price will fall, when the economic outlook will improve, or when equity markets will recover. However, whilst we are cognisant of the potential economic risks ahead (particularly the impact of oil), and in our view have taken this into account at the overall portfolio level, the one thing we do know is that valuations are currently extremely attractive and that valuation is the only variable on which one can lay one's hat. We also know from history and past experience that investors are quite often most pessimistic at exactly the wrong time.

*"the argument is made that there are just too many question marks about the near term future; wouldn't it be better to wait until things clear up a bit and maintain cash reserves until current uncertainties are resolved? Before reaching for that crutch, face up to two very unpleasant facts: the future is never clear and you pay a very high price in the stock market for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values" Warren Buffet, Forbes interview, 6 August 1979.*

Gavin Joubert  
Portfolio Manager

# CORONATION OPTIMUM GROWTH

**Class A**  
as at 30 June 2008

**CORONATION**  
FUND MANAGERS

**Fund category** Worldwide Asset Allocation Flexible  
**Fund description** Aims to deliver long-term growth by investing in a combination of local and international investments across all asset classes.  
**Launch date** 15 March 1999

**Portfolio manager** Gavin Joubert  
**Fund size** R1.2 billion  
**NAV** 3568.36 cents  
**Benchmark/performance fee hurdle** CPIX + 5% p.a.

## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

	30 June 2008
<b>Equities</b>	<b>89.40%</b>
South Africa	24.13%
United States	18.97%
Europe	17.08%
Asia Pacific	15.01%
Latin America	7.80%
United Kingdom	4.49%
Japan	1.92%
<b>Cash</b>	<b>10.60%</b>
USD	5.08%
Other currencies	3.25%
Euro	1.23%
ZAR	1.04%

### TOP 15 HOLDINGS

As at 30 June 2008	% of Fund
Naspers Ltd	5.48%
Coronation Global Emerging Markets Flexible Fund	4.41%
Comgest Nouvelle Asie	3.42%
Tiger Brands Limited	3.20%
Edinburgh Partners Opportunity Fund	2.58%
Woolworths Holdings Ltd	2.56%
QAO Gazprom Reg	2.05%
Sberbank PFD CLS	1.89%
Dominos Pizza Inc	1.88%
Google Inc	1.88%
Coca-Cola Femsa SAB	1.80%
Nasdaq Stock Market Inc	1.78%
Harley Davidson Inc	1.75%
London Stock Exchange Group	1.74%
Impala Platinum Holdings Ltd	1.69%
<b>Total</b>	<b>38.11%</b>

### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31/03/2008	01/04/2008	37.15	29.64	7.51
30/09/2007	01/10/2007	31.60	23.36	8.24
31/03/2007	01/04/2007	7.64	4.93	2.71
30/09/2006	01/10/2006	66.66	51.02	15.64

### MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2008	-2.37%	3.09%	-0.25%	-1.71%	2.17%	-8.50%						
Fund 2007	5.19%	-2.06%	1.77%	1.99%	1.72%	-2.20%	-0.37%	0.41%	1.81%	2.22%	-0.89%	0.54%
Fund 2006	3.19%	-0.07%	2.05%	0.99%	2.17%	3.60%	-0.96%	3.63%	6.62%	1.37%	3.69%	1.32%

### FEES (excl. VAT)

<b>Initial Fee*</b>	Coronation: 0.00% (Direct)
<b>Annual Management Fee - performance related**</b>	Minimum: 1.00% Maximum: 3.50% Sharing rate: 15%

\*An initial fee of 0.25% will be charged on all investments placed via administration platforms like Linked Investment Service Providers (LISP's).

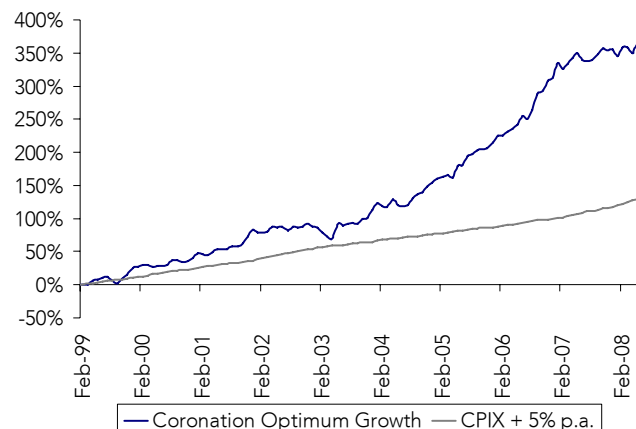
\*\*A portion of Coronation's annual management fee may be paid to administration platforms like LISP's as a payment for administrative and distribution services.

### 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 STATISTICS<sup>1</sup>

### CUMULATIVE PERFORMANCE SINCE INCEPTION



### PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Out-performance
Year to date	-7.75%	9.28%	-17.03%
Latest 12 months	-4.30%	16.13%	-20.43%
Latest 36 months (annualised)	14.32%	12.42%	1.90%
Latest 60 months (annualised)	17.38%	11.14%	6.24%
Since inception (annualised)	16.80%	11.82%	4.98%
2007	10.36%	10.65%	-0.29%
2006	31.09%	9.97%	21.12%
2005	23.91%	9.03%	14.87%
2004	19.54%	9.29%	10.25%

### RISK AND RETURN STATISTICS SINCE INCEPTION

	Fund	MSCI World (ZAR)	ALSI
Annualised average return	17.45%	7.70%	23.86%
Annualised deviation	10.74%	18.54%	18.62%
Downside deviation	6.45%	10.03%	9.87%
Sharpe ratio	0.60	-0.24	0.61
Maximum gain	28.71%	44.31%	40.25%
Maximum drawdown	-11.72%	-51.40%	-30.43%
Positive months	69.37%	50.45%	59.46%

### Total Expense Ratio (TER)<sup>2</sup>

1.16% per annum, which includes a performance fee of 0%

When applicable, Coronation shares in the fund performance above the benchmark. This performance fee is accrued daily, based on the fund's financial year to date performance, and paid to Coronation annually. If the fund produces a return in line with or below the benchmark for the relevant financial year to date, the minimum fee of 1.00% applies.

For further information regarding our fee structure please contact us or visit our website.