# CORONATION INDUSTRIAL

**Class A**
**as at 30 September 2008**

CORONATION FUND MANAGERS

The fund returned +3.8% for the quarter while the index lost 4.0%. In these turbulent times, this performance was pleasing, as it goes some way to restoring the one-year relative performance picture, which sees the fund at –14.9% vs. the index at -11.1%. At one stage in May the fund had trailed the index by as much as 11%. This shows that we really do not construct the portfolio against a benchmark; also that we have the courage to stick to our convictions when things are tough. These thankfully carried us through this difficult period. On a 3-year basis, the fund delivered 13.1% vs. the index at 15.6%, still not where it should be, but getting closer.

We shall spare you yet more comment on the credit crisis and its effect on the economy and stock markets. It is not constructive to dwell too much on these uncertainties. We would rather remain focused on valuing assets on an individual basis, comparing such values with their prices on the day, and (based on the risk-reward ratio as we see it) deciding whether to take it or leave it. Periods of volatility such as this one offer great opportunity to those who are dispassionate, and we have again been able to take advantage of this.

A brief run-down of how this extraordinary year has played out so far, goes something like this: we saw significant value in local industrial companies earlier in the year, but as you recall we were cautious about the economic outlook and hence kept the fund positioned defensively. By the middle of the year however, the market seemed to shrug off such fears. It was already looking through the peak in interest rates to lower inflation and a consumer recovery. In July an astounding rally lifted most financial and industrial shares. At the same time fears about global growth intensified, and the 5-year trend of outperformance by commodity companies and global cyclicals finally started to unravel.

In the past quarter the fund benefited from this rebound, even through its relatively defensive holdings. We had not lost our caution however; the local rally looked overdone to us. Meanwhile the credit crisis started hitting home, investors cut their expectations for global growth and the softness in global cyclicals became a rout. The local rally stalled. In our universe, the big index industrials, being liquid, were swept along in the global sell-down. It is among these that, late in the quarter, we found most opportunity.

In previous commentary we discussed how the three large industrial shares (MTN, Richemont and SAB Miller) contribute some 45% of the weight of the index. By coincidence, MTN, SAB Miller and the luxury business within Richemont are now all being offered around a similar rating, a forward PE of 11x. These companies are globally diversified with SA a small (or small and declining) portion of the overall value. Being exposed to many countries, they offer a significant rand-hedge element. The internal portfolio effect in these groups provides stability. Their exposure to cyclical middle class consumers in developed markets is limited. They are all growing strongly. All have best-in-class business models, management and execution. In recent years, one could buy these attributes only at a significant premium. Investors have now abandoned their faith in the long-term growth of these companies and their growth premium has disappeared. This is typical of the kind of market we're in: a focus on short-term risks rather than the evaluation of both risk and reward, over the long term. We know things will be tough for a time, yet our work on the fundamentals of these companies give us the conviction that an investment now will be very rewarding.

Together with another old portfolio favourite Naspers, the three groups in question are SA-linked businesses that have found scalable business models and have been able to take on the world. We like such models. While of course there are risks, there is great scope for growth. We also like sheer size, believing that large companies are inherently less risky and more robust than small ones.

The investment case for SAB Miller is made in more detail in this month's edition of our newsletter, the Corospondent and will not be repeated here. The case for Richemont too is compelling. While the stock sold-off with the rest of the market, this ignores the internal dynamic triggered by the announced unbundling of its tobacco interests. While tobacco is fairly valued, we think the luxury business is very under valued. Once BAT is unbundled, this great business will bask in the full glare of the market's attention, and will no doubt be rerated. MTN, having touched highs of R160 in the early part of the year, is again at R105. Mobile telephony has become as much of a consumer staple as maize or beer. MTN has become a very robust company, and is now one of the pre-eminent global growth stories in the telecoms space. Given low mobile phone penetration rates in most of its markets, we think the growth is structural and sustainable. On top of global risk aversion, the disappointment of failed corporate deals offered an opportunity here.

During the quarter, we increased exposure to these counters. We now hold some 10% in Richemont, 8% in MTN and 6% in SAB Miller. We switched our Remgro into Richemont; the rest of the funding for these buys came from Reunert, Mvela Group, CIC and Distell. While the thinking evolved bottom-up, it became a theme: we reduced local mid-caps (at still reasonable ratings) in favour of global large-caps. Naspers is back in the top five holdings. We like owning these businesses without having to pay a premium multiple.

We may have availed ourselves of some growth opportunities, but uncertainties clearly remain. The defensive balance in the portfolio is retained with chunky holdings in our stalwarts Bidvest, Tiger Brands and Famous Brands. This is bolstered by the food retailers Spar and Shoprite. With two thirds of exposure in the top ten counters, the portfolio is more concentrated than ever. Our 'local-to-global' switch has the added benefit of increasing the rand-hedge element, something we never want to overlook. It is tempting to sit on the fence in challenging times. We have elected to do the rational rather than the emotive thing and to concentrate our bets where our conviction leads us. This makes us face the period ahead with surprising confidence.

Dirk Kotzé and Quinton Ivan
Portfolio Managers

# CORONATION INDUSTRIAL

**Class A**

**as at 30 September 2008**

CORONATION FUND MANAGERS

| | | | |
|---|---|---|---|
| Fund category | Domestic Equity Industrial | Portfolio manager/s | Dirk Kotzé and Quinton Ivan |
| Fund description | Invests in a broad range of domestic industrial shares. | Fund size | R61.2 million |
| | | NAV | 4421.76 cents |
| Launch date | 1 July 1998 | Benchmark | FTSE/JSE Africa Industrial Index |

## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

| Sector | 30 September 2008 |
|---|---|
| Domestic Assets | 100.00% |
| Equity | 98.55% |
| Basic Materials | 7.63% |
| Industrials | 22.95% |
| Consumer Goods | 24.93% |
| Financials | 1.54% |
| Healthcare | 6.54% |
| Consumer Services | 25.39% |
| Telecommunications | 8.61% |
| Technology | 0.96% |
| Cash | 1.45% |

### TOP 10 HOLDINGS

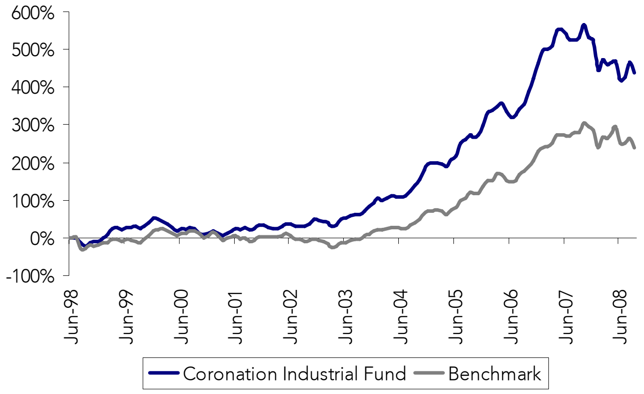
| As at 30 September 2008 | % of Fund |
|---|---|
| Richemont Securities AG | 10.18% |
| MTN Group Ltd | 8.61% |
| Bidvest Group Ltd | 6.77% |
| SAB Miller Plc | 6.20% |
| Naspers Ltd | 5.99% |
| Tiger Brands Ltd | 5.19% |
| Famous Brands Ltd | 5.04% |
| Truworths International Ltd | 4.20% |
| Trencor Ltd | 3.80% |
| Netcare Ltd | 3.74% |
| Total | 59.72% |

### INCOME DISTRIBUTIONS

| Declaration | Payment | Amount | Dividend | Interest |
|---|---|---|---|---|
| 30/09/2008 | 01/10/2008 | 39.97 | 38.29 | 1.68 |
| 31/03/2008 | 01/04/2008 | 6.39 | 5.95 | 0.44 |
| 30/09/2007 | 01/10/2007 | 17.39 | 15.62 | 1.77 |
| 31/03/2007 | 01/04/2007 | 14.67 | 11.23 | 3.44 |

## PERFORMANCE AND RISK STATISTICS[1]

### CUMULATIVE PERFORMANCE SINCE INCEPTION




### PERFORMANCE FOR VARIOUS PERIODS

| | Fund | Benchmark | Out-performance |
|---|---|---|---|
| Year to date | -14.14% | -12.53% | -1.61% |
| Latest 12 months | -14.90% | -11.06% | -3.84% |
| Latest 36 months (annualised) | 13.05% | 15.61% | -2.56% |
| Latest 60 months (annualised) | 27.11% | 28.49% | -1.38% |
| Since inception (annualised) | 17.83% | 12.64% | 5.19% |
| 2007 | 11.18% | 17.80% | -6.61% |
| 2006 | 41.12% | 41.86% | -0.74% |
| 2005 | 35.03% | 35.46% | -0.42% |
| 2004 | 53.35% | 46.59% | 6.76% |

### RISK STATISTICS SINCE INCEPTION

| | Fund | Benchmark |
|---|---|---|
| Annualised deviation | 17.86% | 21.31% |
| Sharpe ratio | 0.37 | 0.07 |
| Maximum gain | 55.76% | 61.72% |
| Maximum drawdown | -29.82% | -38.53% |
| Positive months | 63.41% | 65.04% |

### MONTHLY PERFORMANCE RETURNS

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund 2008 | -13.27% | 5.31% | -2.18% | 1.42% | 0.23% | -8.87% | 1.65% | 7.51% | -5.07% | | | |
| Fund 2007 | 6.31% | 0.15% | 1.60% | 6.60% | 0.50% | -1.68% | -2.36% | -0.20% | 1.03% | 5.61% | -5.28% | -0.92% |
| Fund 2006 | 8.29% | 1.23% | 2.16% | 1.98% | -4.53% | -3.70% | 1.89% | 3.68% | 2.40% | 7.90% | 7.17% | 7.44% |

## 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] | 1.26% 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.

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