

## PORTFOLIO MANAGER COMMENTARY

The Coronation Global Managed Fund launched on the 29th October 2009. The fund will potentially invest in the full range of international assets including equities, listed property, government bonds, corporate bonds, inflation-linked bonds, commodities and cash. As always, valuation will be the primary driver of investment decisions and a long-term (5 years) investment horizon will be adopted.

Today we are finding a lot of selected value in global equities and as a result around 70% of the fund is invested in equities. Over time we would expect the equity exposure of the fund to be in a range of perhaps 40% to 80% and as such the current equity exposure is towards the high end of the expected range. The bulk of this equity exposure is invested in developed markets (US, Europe and Japan) which we generally find more attractive than emerging markets today. Additionally, the equity exposure is predominantly in the more defensive industries like pharmaceuticals, telecommunications, tobacco and beverages. Whilst equity markets saw a significant recovery in 2009, this recovery was led by the lower quality more cyclical assets (primarily resources and financials) with the more defensive businesses lagging: today one can buy businesses like Pfizer, Nestle and Vodafone at prices that are not much higher than they were in early 2009 at the market bottom. In fact, one can buy many global businesses at the same prices that they were trading at 10 years ago, given 10 years of 0% return from US, European and Japanese equities.

The fund's exposure to government bonds is negligible due to the fact that we believe bonds are expensive and a buyer of bonds at current yields assumes a high probability of some loss of capital. Our negative view on government bonds is in turn carried through to corporate bonds, which many investors appear to be forgetting will also inevitably be negatively impacted by a de-rating of government bonds. Likewise, we hold a cautious view on property stocks, although 4% of the fund is invested in a handful of property companies where we feel the current high yields compensate one for the de-rating risk.

Over the past few months we have been able to buy stakes in several high quality businesses at very attractive prices. CVS Caremark, which is one of the fund's largest holdings, is typical of these purchases. CVS Caremark was formed in 2007 through the merger of two businesses – CVS, which is the largest drug store chain in the US with 6 200 stores and Caremark, which is the second largest PBM (Pharmacy Benefits Manager) in the US. The drug store part of the business (CVS, which is very similar to Clicks in South Africa) generates around 60% of the company's earnings and is a high quality asset in our view: this business has a stable earnings stream and generates large amounts of free cash flow. The PBM business (the other 40% of earnings), effectively manages the filling of prescriptions for company health care plans and is a lower quality business (due to the somewhat commoditised nature of the service as well as the short duration of the contracts which are on average up for renewal every three years or so). This business however will benefit from positive long-term drivers (primarily the desire to drive down healthcare costs in the US) and in addition to this, the market has become more consolidated over time with a few large providers emerging.

The fact that CVS Caremark own both a drug store business and a PBM business should be a competitive advantage and should benefit both the PBM part of the business (through being able to offer PBM plan participants choice of both mail delivery and physical collection at a drug store) and the drug store part of the business (through increased footfall). However, it is partly the failure of these benefits to be realised from the merger that has resulted in the market becoming disillusioned with CVS Caremark. At the fund's average purchase price of just below \$31, CVS Caremark was trading on around 11x 2010 earnings. As reference points, CVS's largest competitor in the drug store area (Walgreen) trades on approximately 16x this year's earnings and Caremark's two largest competitors in the PBM business (Express Scripts and Medco Health) trade on around 19x this year's earnings. Whilst we do not use relative valuations to justify purchases, we point out these valuation metrics to highlight what we believe is a significant valuation anomaly in CVS Caremark, which we believe is worth closer to \$50 than the current share price of \$33. We are not sure when sentiment towards CVS Caremark will change, but we do believe that the company's strategy makes sense and that the valuation is very attractive, with the drug store assets alone being worth around \$30, not far off the current share price.

We believe that current market conditions (many undervalued global equities due to 10 years of flat equity markets, as well as a strong rand) provides South African investors a great opportunity to invest in a global managed fund. We would argue that most South Africans have far too little invested internationally and in addition to this a unit trust vehicle is a great way to invest internationally without using any foreign exchange allowance. We look forward to the challenge of generating above average returns for the fund's investors over the years to come.

**Portfolio manager**  
Gavin Joubert

# CORONATION GLOBAL MANAGED FUND

CLASS A as at 31 December 2009

**CORONATION**   
FUND MANAGERS

**Fund category** Foreign - Asset Allocation - Flexible  
**Fund description** Diversified exposure to global assets with a focus on maximising returns over the long term.  
**Launch date** 29 October 2009  
**Portfolio manager/s** Gavin Joubert

**Fund size** R54.26 million  
**NAV** 100.04 cents  
**Benchmark/Performance Fee Hurdle** Composite: 60% MSCI (TR) Index & 40% Citigroup World Government Bond Index

**Risk profile** Cons Mod Aggr

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

### INVESTMENT MANDATE

Global Managed is managed with the aim of maximizing risk adjusted returns available from a global portfolio. The portfolio is constructed on a clean slate basis and is broadly diversified across countries, including the developed economies of the US, Europe and Japan as well as emerging markets. It can invest in all listed asset classes including shares, listed property, conventional bonds, inflation-linked bonds, cash and other appropriate instruments. Up to 20% of the fund can be invested with other fund managers, selected for specific specialised skills. Exchange traded funds and other liquid instruments that enable the most efficient implementation of specific views may be used. Active asset allocation and security selection strategies appropriate to the needs of investors with medium to longer time horizons are followed. The intent is to keep the fund fully invested in foreign assets at all times.

## PORTFOLIO DETAIL

### GEOGRAPHIC ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2009
<b>Equities</b>	<b>70.5%</b>
North America	29.3%
Europe	28.3%
Japan	6.5%
Asia	5.4%
Latin American	1.1%
<b>Gold</b>	<b>2.9%</b>
<b>Property</b>	<b>4.2%</b>
Asia	3.5%
Japan	0.6%
<b>Bonds</b>	<b>1.4%</b>
Europe	1.4%
<b>Cash</b>	<b>21.0%</b>
USD	16.2%
Other	5.4%
ZAR	(0.5)%

### PERFORMANCE FOR VARIOUS PERIODS - ZAR RETURNS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	0.5%	(2.6)%	3.0%
Year to date	0.5%	(2.6)%	3.0%

### TOP 10 HOLDINGS

As at 31 Dec 2009	% of Fund
SPDR Gold Trust	2.9%
DIRECTV Group Inc	2.7%
Pfizer Inc	2.5%
CVS Caremark Corp	2.4%
Japan Tobacco Inc	2.3%
Symantec Corp	2.1%
Heidelberg Cement AG	2.1%
Imperial Tobacco Group PLC	2.1%
Vivendi	2.0%
Johnson & Johnson	2.0%

### PERFORMANCE FOR VARIOUS PERIODS - USD RETURNS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	6.0%	2.8%	3.2%
Year to date	6.0%	2.8%	3.2%

### MONTHLY PERFORMANCE - ZAR RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2009											(2.2)%	2.7%	0.5%
Fund 2008													0.0%
Fund 2007													0.0%

### FEES (excl. VAT)

<b>Initial Fee</b>	Coronation: 0.00%
<b>Annual Management Fee - performance related*</b>	Minimum: 1.35% Maximum: 2.35%

\* 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.

Unit trusts should be considered a medium- to long-term investment. The value of units may go down as well as up. Past performance is not necessarily an indication of future performance. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. Fluctuations or movements in exchange rates may cause the value of underlying investments to go up or down. Instructions must reach the Management Company before 2pm (12pm for the Money Market Fund) to ensure same day value. Fund valuations take place at approximately 15h00 each business day and forward pricing is used. Coronation is a Full member of the Association for Savings & Investment SA (ASISA). <sup>1</sup>Performance is quoted from Morningstar as at 31 December 2009 for a lump sum investment using Class A NAV prices with income distributions reinvested. Performance figures are quoted after the deduction of all costs incurred within the fund. <sup>2</sup>The TER is calculated as a percentage of the average NAV of the portfolio incurred as charges, levies and fees in the management of the portfolio for a rolling 12-month period to end September 2009. A higher TER ratio does not necessarily imply a poor return nor does a low TER imply a good return. The current disclosed TER cannot be regarded as an indication of future TER's.