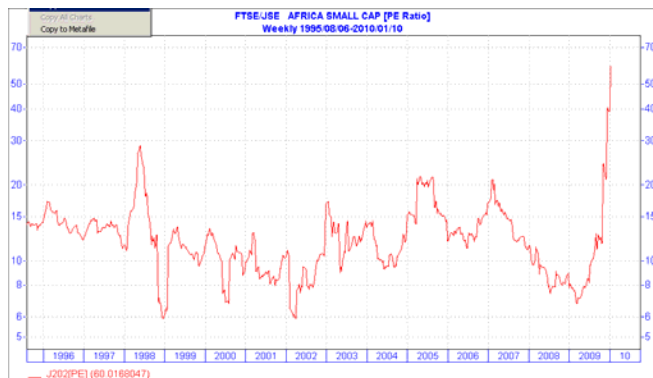


## PORTFOLIO MANAGER COMMENTARY

In 2009, the fund delivered a return of 32.2% - better than the mean competitor fund return of 24.4%. This places the fund second relative to its competitors. The performance was also pleasing when measured against the performance of the various indices in which the fund can invest as indicated below:

Mid Cap Index	35.7%
Small Cap Index	28.3%
Fledgling Index	24.3%
AltX Index	-53.9%

2009 was a classic case of how the market prices in an earnings recovery long before it actually materialises. Small cap earnings (as measured by the Small Cap Index) have been decimated by the current harsh economic climate and are down a massive 77% since March 2009. Mid caps and the Top 40 shares have managed to stem their earnings drop to between 22% and 26%. Despite this, the Small Cap Index was up 28.3% in 2009. This combination of declining earnings and rising share prices has caused the historic PE of the Small Cap Index to rocket upwards to the highest levels in the past 14 years at 60 times!



Source: I-Net Bridge

The market is therefore expecting a big earnings recovery (albeit off a very low base) from the average small company, which we generally concur with. The current high PE of the index is misleading, in that within the index there are many 'low PE, low earnings' opportunities. These are shares where we believe earnings are low and which are not highly rated by the market. When the earnings recovery comes through, the rating normally follows, giving rise to a potent combination of earnings growth and re-rating.

Where in the cycle are we now?

2009 has been a good year for small cap shares despite a big decline in earnings for many companies. This follows a very poor year in 2008, where the market correctly anticipated the tough economic climate of the ensuing year. Despite this volatility, one must bear in mind that the index is still up nearly five fold from May 2003 - the start of the massive 5-year recovery in small caps. The exact point in the cycle is therefore not that easy to determine, but we would make the following points:

- The earnings base of the average small cap share is very low and should grow strongly off this base. Earnings (growth or contraction) is the most important driver of share prices.
- Small caps remain out of favour (just look at the performance of AltX for confirmation) and risk appetite locally is not particularly high at the moment. This means that investor focus on small caps is low.

- While the index is up 33% from its lows, many specific shares still trade close to their multi-year lows and offer compelling investment opportunities.

In the past 6 to 9 months, the fund has been able to identify many attractively priced shares such as Distribution and Warehouse Network, Kelly Group, Omnia, York Timber and Advtech, to name a few. It is not always easy investing in companies where earnings are under pressure and newsflow is poor, but these moments so often prove to be the most rewarding times to invest. We don't think it will be different this time.

#### Portfolio manager

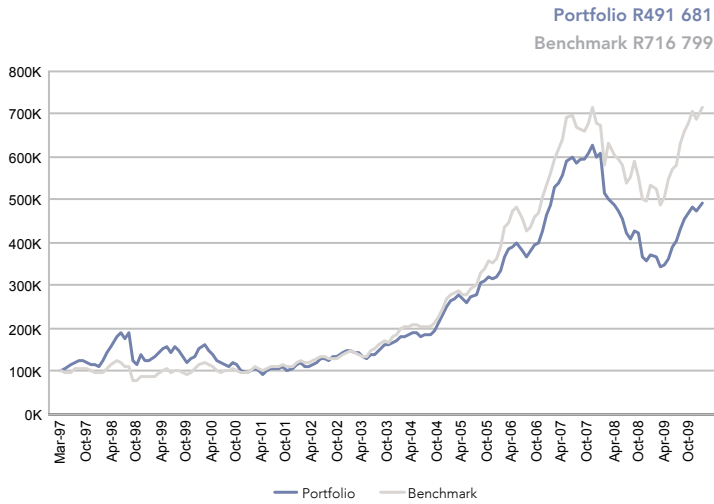
Alistair Lea

**Fund category** Domestic - Equity - Smaller Companies  
**Fund description** Invests in small and mid-capitalisation companies, developing industries and recovery shares.  
**Launch date** 01 April 1997  
**Portfolio manager/s** Alistair Lea

**Fund size** R135.87 million  
**NAV** 3664.77 cents  
**Benchmark** Composite: FTSE/JSE Africa Mid & Small Cap Indices  
**Risk profile** Cons Mod Aggr

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

### GROWTH OF A R100,000 INVESTMENT



### PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	391.7%	616.8%	(225.1)%
Since Inception (annualised)	13.3%	16.7%	(3.4)%
Latest 5 years (annualised)	13.2%	20.9%	(7.8)%
Latest 3 years (annualised)	0.1%	8.5%	(8.4)%
Latest 1 year (annualised)	32.2%	34.5%	(2.3)%
Year to date	32.2%	34.5%	(2.3)%
2008	(38.7)%	(21.1)%	(17.6)%
2007	23.8%	20.3%	3.5%
2006	46.7%	43.3%	3.5%
2005	25.9%	41.4%	(15.4)%

### RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	22.1%	19.5%
Sharpe Ratio	0.08	0.27
Maximum Gain	67.2%	62.6%
Maximum Drawdown	(50.2)%	(38.2)%
Positive Months	62.7%	61.4%

### MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2009	(1.1)%	(6.7)%	0.8%	4.2%	7.9%	3.3%	7.3%	5.9%	2.6%	3.0%	(2.1)%	4.2%	32.2%
Fund 2008	(15.3)%	(2.5)%	(2.5)%	(2.5)%	(3.9)%	(7.8)%	(3.5)%	5.5%	(2.0)%	(12.5)%	(2.5)%	3.6%	(38.7)%
Fund 2007	8.0%	2.2%	2.9%	6.2%	1.3%	(2.1)%	1.3%	0.0%	2.5%	3.5%	(4.8)%	1.3%	23.8%

### FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee*	1.00%

\* 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) <sup>2</sup>	1.21% per annum
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## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2009	100%
<b>Domestic Assets</b>	<b>98.9%</b>	
■ <b>Equities</b>	<b>94.5%</b>	
Basic Materials	12.2%	
Industrials	40.1%	
Consumer Goods	11.4%	
Health Care	0.1%	
Consumer Services	18.9%	
Financials	5.3%	
Technology	6.4%	
■ <b>Cash</b>	<b>4.4%</b>	
<b>International Assets</b>	<b>1.1%</b>	
■ <b>Equities</b>	<b>1.1%</b>	

### TOP 10 HOLDINGS

As at 31 Dec 2009	% of Fund
Famous Brands Ltd	6.7%
DAWN Ltd	4.6%
Omnia Holdings Ltd	4.2%
Advtech Ltd	4.2%
Iliad Africal Ltd	3.8%
Ceramic Industries Ltd	3.8%
AECI Ltd	3.7%
Astrapack Ltd	3.6%
Bowler Metcalf Ltd	3.6%
PIONEER FOOD GROUP	3.6%

### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Sep 2009	01 Oct 2009	51.76	46.16	5.60
31 Mar 2009	01 Apr 2009	41.84	37.99	3.85
30 Sep 2008	01 Oct 2008	35.65	33.94	1.71
31 Mar 2008	01 Apr 2008	26.59	24.44	2.15

### 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, as well as the actual performance fee incurred over the 12 months 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.