

PORTFOLIO MANAGER COMMENTARY

One of the star performers in the high yield space during the quarter were preference shares. The fund closed this period with another pleasing return of 2.3%, keeping the one-year performance at a solid 12.1%. Preference shares have responded well to the aggressive easing in short-term interest rates this year – the South African Reserve Bank (SARB) took just 6 months to unwind almost all of the tightening put in place over the two years from June 2006 to June 2008.

As expected, this good performance slowed a little during the past quarter given the likelihood that interest rates have now bottomed. Although dividend distributions from preference shares are lower as they are linked to the prime rate (currently at 11%), these distributions are likely to continue paying handsomely throughout the cycle as declining company earnings are putting pressure on dividends from ordinary shares.

Consumer price inflation (CPI) surprised on the upside this year, remaining persistently high despite a fast declining producer inflation. While we may yet see some more rapid downward movement in CPI, owing to the recent stronger rand, many analysts have revised their forecasts higher. We expect that we are close to the bottom of the interest rate cycle, if not already there. The money market yield curve is pricing in the first interest rate hike starting mid 2010.

Preference share prices are sensitive to underlying interest rates and were battered during the two years in which interest rates rose. Even though dividend yields rose in line with a higher prime rate and lower prices, the price declines were nasty. A notable and relatively quick reversal of this occurred as interest rates fell sharply. Once again, dividends will have been reduced, but price action has been positive rising well off the lows reached in 2008.

The fund has always maintained a high percentage holding to bank preference shares which are not only more liquid (due to greater issuance), but are deemed to be less risky than corporate preference shares (given added regulation by the Banks' Act as well as tight monitoring by the SARB). At the end of the quarter the fund held 71% in the big four SA bank preference shares, with a further combined holding of 10.7% in the Investec Bank and Holdings preference shares. The balance of just under 20% is invested in the smaller corporate issues such as Grindrod, Netcare, African Bank and PSG preference shares. The overall fund yield at the moment (before fees) is 9.3%

Preference shares are currently yielding between 8.5% and 10.5% (after tax), depending on the credit quality of the issuer. Although coupled with added risks, these yields are still higher than those available in the money market.

During the quarter we reduced our exposure to some of the big four banks and into higher yielding Investec Bank preference shares achieving around a 2% yield pick-up. The market is now pricing a significant discount on the Investec Bank preference shares, reflective of its tough operating conditions offshore (although the SA preference shares are issued by the SA entities) as well as liquidity constraints that it faced towards the end of 2008. Pricing has not recovered since and we see this as a buying opportunity.

Another 'arbitrage' opportunity that opened up in the bank preference shares space is between Imperial Bank and Nedbank. Given that a deal for Nedbank to buy the remaining shares it doesn't yet own in Imperial Bank is highly likely to be concluded, the Imperial Bank preference share becomes one and the same risk as the Nedbank preference share; however, pricing does not yet fully reflect this. Trading has been thin in this notoriously illiquid share, but the discount between the two has narrowed to reach 0.5%.

The distribution this quarter has been lower than the past quarter but this was to be expected as the banks all pay their dividends in March and September, with only African Bank distributing dividends this quarter. We distribute dividends on receipt of these which explains the lumpiness of the preference share fund distribution stream.

The fund remains fully invested in preference shares at all times.

Portfolio managers

Tania Miglietta and Godwill Chahwahwa

CORONATION PREFERENCE SHARE

CLASS A as at 30 June 2009

CORONATION 
FUND MANAGERS

Fund category Domestic - Fixed Interest - Varied Specialist
Fund description Aims to maximise yield in the form of dividend income by investing in a range of quality listed preference shares
Launch date 02 October 2006
Portfolio manager/s Tania Miglietta and Godwill Chahwahwa

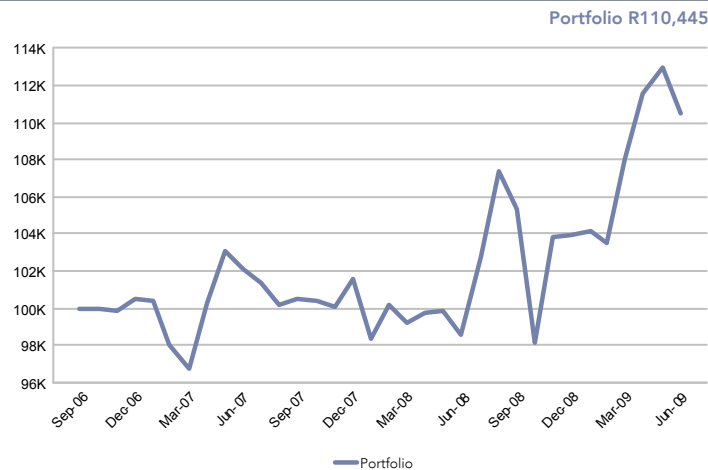
Fund size R436.62 million
NAV 86.64 cents
Benchmark/Performance Fee Hurdle Alexander Forbes 3-month (STeFI) Index, adjusted for maximum individual tax rate

Risk profile

Cons Mod Aggr

PERFORMANCE AND RISK STATISTICS¹

GROWTH OF A R100,000 INVESTMENT



PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	10.4%	18.5%	(8.0)%
Since Inception (annualised)	3.7%	6.2%	(2.5)%
Latest 1 year (annualised)	12.1%	6.6%	5.4%
Year to date	6.2%	2.9%	3.3%
2008	2.3%	7.0%	(4.7)%
2007	1.1%	5.6%	(4.5)%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	8.8%	0.4%
Sharpe Ratio	(0.82)	(1.60)
Maximum Gain	9.1%	30.8%
Maximum Drawdown	(8.6)%	0.00
Positive Months	48.5%	100.0%

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2009	0.1%	(0.6)%	4.4%	3.3%	1.2%	(2.2)%							6.2%
Fund 2008	(3.2)%	1.8%	(0.9)%	0.6%	0.1%	(1.4)%	4.3%	4.5%	(1.9)%	(6.8)%	5.8%	0.1%	2.3%
Fund 2007	(0.1)%	(2.3)%	(1.4)%	3.7%	2.9%	(0.9)%	(0.8)%	(1.2)%	0.4%	(0.1)%	(0.4)%	1.6%	1.1%

PORTFOLIO DETAIL

ASSET ALLOCATION AND EXPECTED EFFECTIVE YIELD

As at 30 Jun 2009	Weight	Annualised Yield	Contributions to overall Yield
Bank issued preference shares	85.33%	8.69%	7.41%
Corporate issued preference shares	11.77%	10.65%	1.25%
Convertible preference shares	0.58%	12.27%	0.07%
Ordinary equity	0.00%	0.00%	0.00%
Cash (pre-tax)	2.30%	7.20%	0.17%
Gross Yield			8.90%
Less: Total expense ratio ²			(0.71)%
Less: Trading costs ²			(0.28)%
Net expected effective			7.91%

This yield estimate is provided to give an indication of the achievable yield for an investment made at the reporting date. Actual experience may differ, based on changes in market values, official interest rates and changes in costs actually experienced during the investment period.

TOP 10 HOLDINGS

As At 30 Jun 2009	Yield	Rating
Absa Preference Shares	8.31%	AA+
Stndrd Bank Group Cum Pref Share	8.15%	AA
Nedbank Non Cum Prefs	8.76%	AA
Firststrand Limited Pref Shares	8.35%	AA-
Firststrand Securities Pref Share	8.64%	AA-
Investec Non Red Cum Pref	10.01%	A+
Investec Limited Preference Shs	10.34%	AA-
Network Healthcare Pref	10.90%	A+
Grinrod Limited Prefs	10.46%	BBB-
Psg Preference Share	10.45%	A-

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Jun 2009	01 Jul 2009	0.89	0.84	0.05
31 Mar 2009	01 Apr 2009	3.91	3.80	0.11
31 Dec 2008	02 Jan 2009	1.59	1.32	0.27
30 Sep 2008	01 Oct 2008	2.98	2.82	0.16

FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee	0.60%
Total Expense Ratio (TER)²	0.71% per annum

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). ¹Performance is quoted from Morningstar as at 30 June 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. ²The 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 March 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.