

## PORTFOLIO MANAGER COMMENTARY

2010 was a very strong year for the preference share market. The fund registered a return of 13.64%, ahead of the benchmark return of 3.90% for the year. The fund remains comfortably ahead of its benchmark over longer-term measures of one, two and three years as well as since inception in October 2006.

Over the last two years, preference share prices have recovered strongly following their dramatic sell-off from 2006 to mid-2008. We have included below the price chart for the Nedbank preference share which has been in issue since 2003. Acting as a proxy for the preference share market, the strong upward move in recent years is evident. At current levels, we still see value in preference shares going forward, but are cautious that the quantum of capital gains achieved in the last two years was exceptional.



Source: I-Net Bridge

Interest rates have come down to the lowest levels in 30 years, with the repo rate at 5.50% and the prime rate at 9%. This, together with the appreciation in prices, has brought clean yields in the preference share market lower. Big four bank preference shares now yield between 6.35% and 6.70%, while one can still invest in corporate preference shares with yields ranging from 7.20% to 7.85%.

During the quarter we introduced the Capitec preference share into the portfolio which currently yields 7.30%.

Reflective of our higher weighting in bank preference shares, the estimated weighted after-tax yield on the fund now sits at 6.8%. Grossed up for 40% tax this equates to a competitive pre-tax yield of 11.3%. We remain of the view that the asset class continues to be attractive for long-term investors seeking a competitive after-tax yield.

#### Portfolio managers

Tania Miglietta and Godwill Chahwahwa

# CORONATION PREFERENCE SHARE

CLASS A as at 31 December 2010

**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

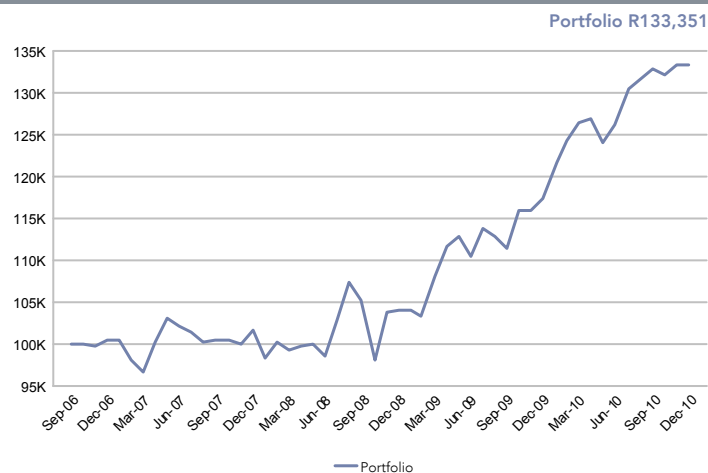
**Fund size** R372.50 million  
**NAV** 93.38 cents  
**Benchmark** Alexander Forbes 3-month (STeFI) Index, adjusted for maximum individual tax rate

**Risk profile**



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

### GROWTH OF A R100,000 INVESTMENT



### PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	33.4%	26.6%	6.7%
Since Inception (annualised)	7.0%	5.4%	1.6%
Latest 3 years (annualised)	9.5%	5.4%	4.1%
Latest 1 year (annualised)	13.6%	3.9%	9.7%
Year to date	13.6%	3.9%	9.7%
2009	12.9%	5.2%	7.7%
2008	2.3%	7.0%	(4.7)%
2007	1.1%	5.6%	(4.5)%

### RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	8.0%	0.5%
Sharpe Ratio	(0.32)	(0.90)
Maximum Gain	9.3%	44.4%
Maximum Drawdown	(8.6)%	0.00
Positive Months	54.9%	100.0%

### MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2010	3.8%	2.1%	1.7%	0.3%	(2.2)%	1.8%	3.3%	0.9%	0.9%	(0.4)%	0.8%	(0.1)%	13.6%
Fund 2009	0.1%	(0.6)%	4.4%	3.3%	1.2%	(2.2)%	3.0%	(0.7)%	(1.4)%	4.2%	0.0%	1.1%	12.9%
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%

## PORTFOLIO DETAIL

### ASSET ALLOCATION AND EXPECTED EFFECTIVE YIELD

As at 31 Dec 2010	Weight	Annualised Yield	Contributions to overall Yield
Bank issued preference shares	71.80%	6.53%	4.69%
Corporate issued preference shares	23.21%	7.55%	1.75%
Convertible preference shares	0.00%	0.00%	0.00%
Ordinary equity	0.00%	0.00%	0.00%
Cash (pre-tax)	3.73%	7.32%	0.27%
<b>Gross Yield</b>			<b>6.72%</b>
Less: Total expense ratio <sup>2</sup>			(0.70%)
Less: Trading costs <sup>2</sup>			(0.28%)
<b>Net expected effective yield</b>			<b>5.73%</b>

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 31 Dec 2010	Yield	Rating
Absa Preference Shares	6.69%	AA+
Firststrand Limited Pref Shares	6.33%	AA
Investec Non Red Cum Pref	6.98%	A+
Investec Limited Preference Shs	7.14%	A+
Network Healthcare Pref	7.21%	A
Stndrd Bank Group Pref Shares	6.52%	AA
Nedbank Non Cum Prefs	6.53%	AA-
Psg Preference Share	7.85%	A-
Grindrod Limited Prefs	7.21%	BBB-
Investec Plc Pref	3.05%	A+

### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31 Dec 2010	03 Jan 2011	0.89	0.86	0.03
30 Sep 2010	01 Oct 2010	2.16	2.11	0.05
30 Jun 2010	01 Jul 2010	1.21	1.17	0.04
31 Mar 2010	01 Apr 2010	1.99	1.93	0.06

### FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee	0.60%
Total Expense Ratio (TER) <sup>2</sup>	0.70% 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). <sup>1</sup>Performance as calculated by Coronation as at 31 December 2010 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 2010. 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.