

PORTFOLIO MANAGER COMMENTARY

In 2010, the fund delivered a return of 28.4%, better than the mean competitor fund return of 25.6%. This places the fund third 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	30.3%
Small Cap Index	24.7%
Fledgling Index	21.6%
Alt X Index	10.3%

A feature of the year has been the remarkable performance of the tier 1 retailers, the likes of Mr Price, Truworths and Shoprite to name a few. This has been the primary driver of the Mid Cap Index performance. The fund has unfortunately had very little exposure to this sector, believing the majority of these shares to be fair to overvalued. We still believe that better value is to be found in the smaller counters, which is reflected in the fund make-up. Only 29% of the fund is currently invested in mid caps, with the balance being invested in smaller companies.

The strong run in share prices meant that it has become necessary to search wider for undervalued shares. This typically means investing in smaller, less researched companies. The small size of the fund (currently R176 million) means that the fund is able to invest in these smaller companies and for these positions to have an impact on the fund performance.

As with 2008 and 2009, 2010 was another year where markets anticipated a recovery (or fall) in earnings long before this happened. The chart shows how the Small Cap Index earnings continued to fall well into 2010 (down 70% from the peak in mid-2008). Despite this, share prices continued the recovery seen in 2009, anticipating a strong recovery in earnings which came through in the second half of 2010. Earnings levels, in nominal terms are now back to mid-2007 levels, and unsurprisingly, so is the unit price of the fund.



The weighted fund PE is currently 10 times, a level last seen in October 2007 just before the crash. Back then the economy was at the tail-end of a very strong period, the prime interest rate was 13.5% (and rising), and the global financial crisis had yet to hit. Today, the prime interest rate is 9% and the economy is probably in the early stages of a recovery. The short-term outlook for corporate earnings from here is reasonably positive. As such, despite two very strong years for the fund and a reasonably high fund PE, I expect another year of inflation-beating returns, but which are unlikely to match that of 2010.

Portfolio manager
Alistair Lea

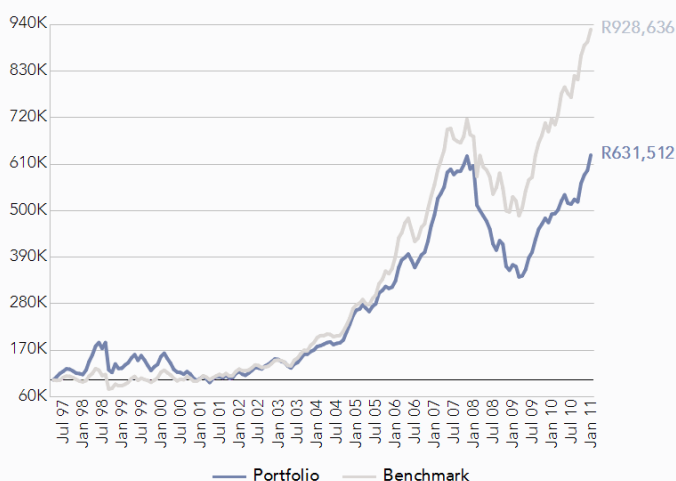
Fund category Domestic - Equity - Smaller Companies
Fund description Invests in small and mid-capitalisation companies, developing industries and recovery shares.
Launch date 01 April 1997
Portfolio manager/s Alistair Lea

Fund size R177.31 million
NAV 4618.09 cents
Benchmark Composite: FTSE/JSE Africa Mid & Small Cap Indices
Risk profile

10/10
Aggressive

PERFORMANCE AND RISK STATISTICS¹

GROWTH OF A R100,000 INVESTMENT



PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2010	%
Domestic Assets	96.8%	
Equities	85.0%	
Basic Materials	12.5%	
Industrials	38.9%	
Consumer Goods	12.0%	
Health Care	0.5%	
Consumer Services	10.2%	
Financials	6.8%	
Technology	4.1%	
Cash	11.8%	
International Assets	3.2%	
Equities	0.8%	
Real Estate	2.4%	

PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	531.5%	828.6%	(297.1)%
Since Inception (annualised)	14.3%	17.6%	(3.3)%
Latest 10 years (annualised)	19.9%	24.7%	(4.8)%
Latest 5 years (annualised)	13.6%	18.8%	(5.2)%
Latest 3 years (annualised)	1.4%	11.2%	(9.8)%
Latest 1 year (annualised)	28.4%	29.6%	(1.1)%
Year to date	28.4%	29.6%	(1.1)%
2009	32.2%	34.5%	(2.3)%
2008	(38.7)%	(21.1)%	(17.6)%
2007	23.8%	20.3%	3.5%

TOP 10 HOLDINGS

As at 31 Dec 2010	% of Fund
Omnia Holdings Ltd	4.9%
DAWN Ltd	3.7%
Ceramic Industries Ltd	3.6%
Mobileind Convdebs	3.5%
Zeder Investments Ltd	3.5%
Famous Brands Ltd	3.3%
O-Line Holdings Ltd	3.3%
Advtech Ltd	3.2%
Iliad Africal Ltd	3.1%
Bowler Metcalf Ltd	3.1%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	21.5%	19.0%
Sharpe Ratio	0.15	0.34
Maximum Gain	67.2%	62.6%
Maximum Drawdown	(50.2)%	(38.2)%
Positive Months	63.6%	61.8%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Sep 2010	01 Oct 2010	22.28	19.98	2.30
31 Mar 2010	01 Apr 2010	52.83	47.08	5.75
30 Sep 2009	01 Oct 2009	51.76	46.16	5.60
31 Mar 2009	01 Apr 2009	41.84	37.99	3.85

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2010	0.3%	1.8%	4.1%	2.8%	(3.7)%	(0.4)%	2.2%	(1.1)%	8.3%	3.6%	1.9%	6.1%	28.4%
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)%

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) ²	1.11% 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 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. 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 September 2010, as well as the actual performance fee incurred over the 12 months 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.

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.