

## PORTFOLIO MANAGER COMMENTARY

Equity markets increased during the first few months of the year before the European debt crisis led to fears of a double-dip recession and a resultant significant decline in markets over the past few months. The MSCI World Index has now declined by 6.3% year to date and the SA equity market by 4.1%. Against this backdrop, the fund declined by 3.7% year to date. Similar to the market decline of September/October 2008, we believe that the selling has now become indiscriminate (largely due to the herd hedge fund trade of 'de-risking', i.e. selling equities at any cost to reduce net equity exposure). This creates significant opportunity which the fund has been taking advantage of. As a result of net buying the fund's equity exposure is back to around the 80% level. Earlier in the year the equity exposure declined to close to 70% after we reduced a number of positions as they moved closer to our fair value.

We continue to believe that global equities are far more attractive than SA equities. As a result 90% of the fund is invested offshore and only 10% in South Africa. The fund effectively owns only two South African shares – MTN and Naspers. In MTN's case we believe that the market's shorter term focus on acquisition and regulatory risk is giving one an excellent opportunity to accumulate shares in a company that we believe will grow earnings by over 15% p.a. compounded over the next 5 years on a P/E not far north of 10 on this year's earnings. In the case of Naspers we believe the group's largest earnings contributor (Pay-TV in SA and Africa) is one of the best assets in the country that will continue to compound earnings at a high rate. In addition to this we believe Tencent is a very good asset and that a number of the smaller assets have the potential to become significant contributors to earnings over time. The share price decline of Naspers has put the group on around 10x earnings two years from today which we believe is very attractive.

'Double-dip' has now become consensus. We don't believe that we can forecast the economy over the shorter term with a high degree of conviction, and so we spend our time focusing on the individual stocks in the portfolio and the earnings streams we believe they will generate over the longer term (5 years). We then value those long-term earning streams and buy those shares that are trading well below what we believe they are worth. In this regard, we don't believe that the longer-term (5 years) earnings outlook, and hence fair values for Pfizer, Johnson & Johnson, Teva, CVS Caremark, Safeway, Time Warner Cable, YUM Brands, Coca-Cola or Kraft (all portfolio holdings) have changed very much over the past several months. Yet in most cases their share prices are lower and therefore their valuations are more, not less, attractive.

In terms of portfolio activity, a number of the large cap US technology stocks have become attractive again (trading on around 10x earnings ex their net cash balances in many cases) and we added small positions in a number of them including Microsoft, Cisco, Oracle and eBay after having sold them earlier in the year. We also continue to believe that the large cap pharmaceutical stocks are pricing in negative growth into perpetuity and we added to the fund's Johnson & Johnson and Pfizer positions as well as adding Merck to the portfolio.

Spain is one of the markets investors hate most today. When investors are just about throwing up equities in revulsion it can be very profitable to invest in these equities and we believe that Banco Santander, the largest bank in Spain, is one such opportunity. Over the past several years, Banco Santander have expanded their operations over Europe and Latin America to the point today where only around 20% of earnings actually come from Spain. The Spanish business is where the risk primarily sits and in this regard we believe that the bank has adequate provision against further defaults in Spain. The Latin American business (operations in Brazil, Mexico and Chile which today contribute around 40% of earnings) is the jewel in the crown and is growing its NAV by 20% p.a. as a result of low banking penetration, economic expansion and rising disposable incomes. There are undoubtedly risks attached to Banco Santander, but at the fund's purchase price (1.2x Price/ Tangible Book Value, 7x earnings and a dividend yield of 8%) we believe that we were being more than compensated for such risks and that there was substantial potential upside.

Within emerging markets valuations of a number of stocks have also started to become very attractive again and we added to the fund's holdings in two of the Chinese internet gaming companies, Netease.com and Sohu.com after they experienced share price declines of 30% due to concerns of regulatory intervention and slowing growth.

Internet penetration (the number of individuals who have access to the internet) has increased significantly over the past several years, as has the Chinese online gaming industry.

| China internet users      | 2005 | 2006 | 2007 | 2008 | 2009 | 2010E |
|---------------------------|------|------|------|------|------|-------|
| Internet users (millions) | 111  | 137  | 210  | 298  | 384  | 476   |
| growth rate               |      | 23%  | 53%  | 42%  | 29%  | 24%   |
| China Online Gaming       |      |      |      |      |      |       |
| Revenue                   | 2005 | 2006 | 2007 | 2008 | 2009 | 2010E |
| Revenue (\$ billions)     | 0.6  | 1.0  | 1.8  | 2.7  | 3.7  | 4.8   |
| growth rate               |      | 67%  | 80%  | 50%  | 37%  | 30%   |

There are currently over 400 million internet users in China and internet penetration is now approaching 30%. We believe that it will ultimately reach 50% or 60%, and could go a lot higher. This means that another 300 to 500 million internet users will be added in China over the next several years. Internet gaming is a very popular, mainly social, cheap pastime in China. The industry has been growing by well over 30% p.a. over the past several years driven by increasing internet penetration and rising disposable income levels. Whilst we do not expect these historic growth rates to be repeated, we do believe that the industry will continue to show double-digit growth. All of Netease.com's earnings and over half of Sohu.com's earnings come from internet gaming. Both companies have large net cash positions (over 25% of its market capitalisation in the case of Netease.com and almost 35% in the case of Sohu.com) and both trade on low double-digit ratings on this year's earnings, which we believe is very attractive and more than prices in the market's current concern of regulatory risk.

Global bonds have continued to appreciate, with US and German bonds now yielding less than 3%. Given current government debt levels, new funding that will be needed, historical valuation ranges and our fair values for these bonds, we believe that they are ridiculously over valued and are an accident waiting to happen. As such, the fund holds no government bonds, preferring cash instead. Although cash may be yielding nothing, it also does not carry the risk of a capital loss as government bonds do.

After 10 years of no returns, we believe that global equities are very attractive and that the fund, with around 70% of its assets invested in global equities, is well placed to generate above average returns over the next few years.

**Portfolio manager**  
Gavin Joubert

# CORONATION OPTIMUM GROWTH

CLASS A as at 30 June 2010

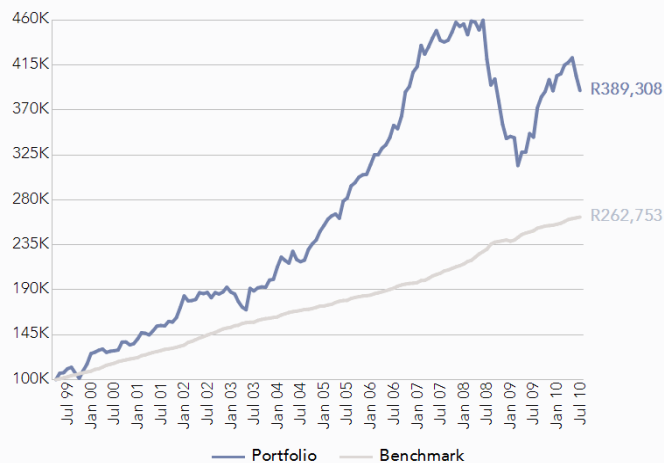
**CORONATION**  
FUND MANAGERS

**Fund category** Worldwide - Asset Allocation - Flexible  
**Fund description** An international rand-based fund that invests in a combination of local and international investments across all asset classes to deliver long-term growth.  
**Launch date** 15 March 1999  
**Portfolio manager/s** Gavin Joubert

**Fund size** R997.95 million  
**NAV** 3238.27 cents  
**Benchmark/Performance Fee Hurdle†** CPI + 5% p.a.  
**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) | 289.3%  | 163.2%    | 126.1%         |
| Since Inception (annualised)   | 12.8%   | 11.7%     | 1.2%           |
| Latest 5 years (annualised)    | 6.7%    | 11.9%     | (5.2)%         |
| Latest 3 years (annualised)    | (4.0)%  | 12.7%     | (16.7)%        |
| Latest 1 year (annualised)     | 13.6%   | 9.4%      | 4.2%           |
| Year to date                   | (3.7)%  | 4.8%      | (8.5)%         |
| 2009                           | 17.7%   | 11.3%     | 6.4%           |
| 2008                           | (24.7)% | 15.3%     | (40.0)%        |
| 2007                           | 10.4%   | 13.6%     | (3.2)%         |
| 2006                           | 31.1%   | 10.0%     | 21.1%          |

### RISK AND RETURN VS MSCI WORLD (ZAR) & FTSE/JSE ALSI

|                      | Fund   | MCSI World | ALSI  |
|----------------------|--------|------------|-------|
| Annualised return    |        |            |       |
| - Since inception    | 12.8%  | 2.9%       | 17.4% |
| - 5 years            | 6.7%   | 3.5%       | 16.2% |
| - 3 years            | (4.0)% | (8.4)%     | 0.2%  |
| - 1 year             | 13.6%  | 10.1%      | 21.8% |
| Annualised Deviation | 11.6%  | 18.1%      | 19.6% |
| Sharpe Ratio         | 0.22   | (0.40)     | 0.37  |
| Downside Deviation   | 8.0%   | 10.8%      | 12.0% |
| Positive Months      | 66.7%  | 49.6%      | 60.0% |

### MONTHLY PERFORMANCE RETURNS

|           | Jan    | Feb    | Mar    | Apr    | May    | Jun    | Jul    | Aug  | Sep    | Oct    | Nov    | Dec  | YTD     |
|-----------|--------|--------|--------|--------|--------|--------|--------|------|--------|--------|--------|------|---------|
| Fund 2010 | 0.5%   | 2.2%   | 0.7%   | 1.1%   | (4.3)% | (3.6)% |        |      |        |        |        |      | (3.7)%  |
| Fund 2009 | (0.4)% | (8.1)% | 4.3%   | 0.0%   | 5.7%   | (1.1)% | 8.6%   | 2.9% | 1.4%   | 3.1%   | (2.8)% | 3.9% | 17.7%   |
| Fund 2008 | (2.4)% | 3.1%   | (0.3)% | (1.7)% | 2.2%   | (8.5)% | (6.1)% | 1.6% | (5.5)% | (6.2)% | (4.0)% | 0.6% | (24.7)% |

### FEES (excl. VAT)

|  |  |
|--|--|
| Initial Fee                                  | Coronation: 0.00%  |
| Annual Management Fee - performance related* | Minimum: 1.00%<br>Maximum: 3.50%<br>Sharing Rate: 15.00% |

\* 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>** 1.48% per annum, which includes a performance fee of 0.24%

When applicable, Coronation shares in the fund performance above the benchmark. This performance fee is accrued daily, based on the fund's financial year to date performance, and paid to Coronation annually. If the fund produces a return in line with or below the benchmark for the relevant financial year to date, the minimum fee of 1.00% applies. For further information regarding our fee structure please contact us or visit our website.

<sup>†</sup>Benchmark Methodology - From January 2009 CPIX was replaced with a newly reweighted and rebased CPI. The benchmark is calculated using a combination of the official month-to-month CPIX numbers pre-January 2009 and the new CPI from January 2009.

## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

| Sector          | 30 Jun 2010  |
|-----------------|--------------|
| <b>Equities</b> | <b>81.3%</b> |
| North America   | 44.5%        |
| Europe          | 19.0%        |
| South Africa    | 6.9%         |
| Asia            | 4.8%         |
| Japan           | 4.7%         |
| Latin American  | 1.3%         |
| <b>Bonds</b>    | <b>1.6%</b>  |
| Europe          | 0.8%         |
| North America   | 0.8%         |
| <b>Cash</b>     | <b>17.1%</b> |
| ZAR             | 9.6%         |
| Other           | 3.9%         |
| USD             | 3.6%         |

### TOP 10 HOLDINGS

| As at 30 Jun 2010           | % of Fund |
|-----------------------------|-----------|
| Coronation Global Em Ff     | 6.0%      |
| MTN Group Ltd               | 5.6%      |
| Safeway Inc                 | 3.3%      |
| Naspers Ltd                 | 3.3%      |
| CF Morant Wright Japan Fund | 3.1%      |
| OAO Gazprom Reg             | 3.1%      |
| Pfizer Inc                  | 3.0%      |
| Symantec Corp               | 3.0%      |
| Johnson & Johnson           | 3.0%      |
| Warner Music Group Corp     | 2.9%      |

### INCOME DISTRIBUTIONS

| Declaration | Payment     | Amount | Dividend | Interest |
|-------------|-------------|--------|----------|----------|
| 31 Mar 2009 | 01 Apr 2009 | 29.60  | 26.43    | 3.17     |
| 30 Sep 2008 | 01 Oct 2008 | 27.68  | 25.03    | 2.65     |
| 31 Mar 2008 | 01 Apr 2008 | 37.15  | 29.64    | 7.51     |
| 28 Sep 2007 | 01 Oct 2007 | 31.60  | 23.36    | 8.24     |

### 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 30 June 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 March 2010, as well as the performance fee accrued over the above period. Although the performance fee as included in the TER is calculated over the above period, the actual performance fee calculation and payment corresponds with the funds financial year end. 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.