

PORTFOLIO MANAGER COMMENTARY

After a period of relatively dismal performance from the preference share market in 2007 and during the first half of 2008, a consistent recovery has been underway since then. The positive performance has continued into 2010 and preference shares are now well off their lows. The fund returned 7.6% for the 6 months to June, 14.4% for the last 12 months, and 13.2% p.a. over the last two years (all returns after fees).

There was renewed issuance in a few preference share names this quarter with Investec and PSG tapping their existing preference shares. Both were sold at a discount to the prevailing market prices at the time, thereby boosting the overall return for the quarter as we topped up on these shares at better prices.

Overall appetite for preference shares has been good as yields of between 7.5% – 9% are still achievable and remain attractive, especially for the tax sensitive investor. The yield grossed up for an assumed 40% tax paying individual would in effect provide a yield of nearly 13%. This is a great return compared to that achievable in the money market.

Money market rates now at 6.5% reached a new low after the last repo rate cut seen in March. Investors seeking yield are faced with very low interest rates this year. Those having a longer term investment horizon and less concern for potential capital volatility are best suited for this type of investment as preference shares do carry their own risks.

Dividends at the prevailing prime rate of 10% range between R6.30 and R8.00 per share per annum. The dividend is calculated as a percentage (ranging from 63% to 80%) of the prime rate. Since preference share prices fell in 2007/2008 the clean yield on these shares rose simultaneously. Yields have since dropped due to lower interest rates and price recovery off the lows, but they continue to offer an attractive yield all the same.

The fund invests in a combination of bank and corporate preference shares, the split of which is determined by pricing and our internal credit risk view of the names. The fund typically hold around 75% in bank issued preference shares with the balance in corporate issued names. Amongst them are PSG, Netcare, Imperial Holdings, Grindrod.

At quarter-end the fund's clean yield before fees was 7.6%.

Portfolio managers

Tania Miglietta and Godwill Chahwahwa

CORONATION PREFERENCE SHARE

CLASS A as at 30 June 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

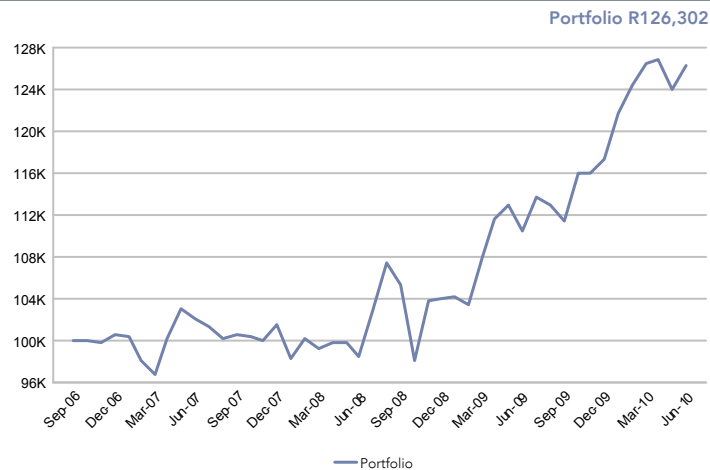
Fund size R412.46 million
NAV 91.70 cents
Benchmark/Performance Fee Hurdle Alexander Forbes 3-month (STeFI) Index, adjusted for maximum individual tax rate

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)	26.3%	24.0%	2.3%
Since Inception (annualised)	6.4%	5.6%	0.8%
Latest 3 years (annualised)	7.3%	5.8%	1.6%
Latest 1 year (annualised)	14.4%	4.3%	10.1%
Year to date	7.6%	2.0%	5.6%
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	8.4%	0.5%
Sharpe Ratio	(0.42)	(1.05)
Maximum Gain	9.3%	40.1%
Maximum Drawdown	(8.6)%	0.00
Positive Months	53.3%	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%							7.6%
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 30 Jun 2010	Weight	Annualised Yield	Contributions to overall Yield
Bank issued preference shares	77.97%	7.46%	5.81%
Corporate issued preference shares	18.92%	8.59%	1.62%
Convertible preference shares	2.19%	5.70%	0.12%
Ordinary equity	0.00%	0.00%	0.00%
Cash (pre-tax)	0.92%	7.00%	0.06%
Gross Yield			7.63%
Less: Total expense ratio ²			(0.70)%
Less: Trading costs ²			(0.28)%
Net expected effective			6.65%

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 2010	Yield	Rating
Absa Preference Shares	7.53%	AA+
Firststrand Limited Pref Shares	7.43%	AA
Investec Non Red Cum Pref	7.82%	A+
Nedbank Non Cum Prefs	7.47%	AA-
Stndrd Bank Group Pref Shares	7.04%	AA
Investec Limited Preference Shs	8.05%	A+
Psg Preference Share	8.52%	A-
Network Healthcare Pref	8.51%	A
Grinrod Limited Prefs	8.36%	BBB-
African Bank Pref	8.14%	A+

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Jun 2010	01 Jul 2010	1.21	1.17	0.04
31 Mar 2010	01 Apr 2010	1.99	1.93	0.06
31 Dec 2009	04 Jan 2010	0.76	0.72	0.04
30 Sep 2009	01 Oct 2009	3.12	3.08	0.04

FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee	0.60%
Total Expense Ratio (TER)²	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). ¹Performance 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. 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 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.