

PORTFOLIO MANAGER COMMENTARY

The fund enjoyed a strong quarter. It has outperformed its benchmark by 1.9% p.a. over a rolling 3-year period (7.3% versus 5.4% p.a.) and 1.2% p.a. over a rolling 5-year period (14.5% versus 13.3% p.a.). The fund is one of the top performing funds in its sector over all meaningful periods.

World equity markets and the All Share Index have traded in a broad range since late 2009, reflecting concerns over the sustainability of the global economic recovery. Governments and regulators remain resolute in their goal of preventing a recurrence of the financial crisis and economic policies are likely to remain supportive of growth. This means that global interest rates are likely to remain low for longer with the potential for further quantitative easing. As long as this is the case, the search for yield will continue to drive emerging market bond yields lower and emerging market currencies stronger.

The All Share Index is now only 10% off the May 2008 peak. Following this strong performance, we are more circumspect about the future. Although equities remain our preferred asset class, we continue to take profits to maintain what we consider a neutral equity exposure. We continue to believe that global equities are more attractive than local equities. When one considers the very strong rand, investors currently have an excellent opportunity to diversify their portfolios. We have taken full advantage of this opportunity across our client portfolios.

The All Share Index returned 13.3% for the quarter. Industrials led the market higher returning 18.5%, while financials returned 15.2% and resources 7.1%. Resources have now returned -4.7% over 3 years and while we remain underweight, valuations have become more reasonable based on our assessment of mid-cycle earnings. Our preferred resource exposure is via Sasol given its long-life assets, low cost base and the favourable long-term fundamentals of oil as a commodity. We have also aggressively added to our holding in Anglo American following the diversified miners sell-off over concerns that the world economy was headed for a double dip recession. We remain underweight gold and platinum producers. These businesses continue to experience declining grades, production disappointments and enormous cost pressures (labour and electricity). Although these companies would benefit were the rand to weaken, they do not offer a sufficient margin of safety to justify a significant holding.

Banks lagged the Financial Index, returning 14.5% for the three month period. We remain overweight banks and have added to our position during the quarter. Although impairment provisions have been slow to normalise (impacted by debt counselling and a weaker economy), we believe valuations of the large, commercial banks are attractive at 10 times 1-year forward earnings and price-to-book ratios of 1.8 times.

South Africa, like many other emerging markets, has benefited from global risk appetite, with foreigners net buyers of approximately R100 billion of local equities and bonds year-to-date. This has been the primary driver behind the strength of the rand, which at the time of writing, has broken below R7 to the dollar. As long as global interest rates are close to zero, the search for yield could result in the rand remaining stronger for longer. As long-term investors, we do not try and time markets. We believe that the rand is overvalued and has to weaken – the manufacturing and export sector of the economy is simply uncompetitive at current levels. It is for this reason that we maintain a significant rand-hedge element in our portfolios, owning attractively valued, globally diversified businesses such as MTN, British American Tobacco, Naspers, Richemont, SABMiller and Bidvest.

Consumer-facing businesses, most notably retailers, have been exceptional performers with share prices up nearly 4 times on average since the start of the interest rate hike cycle in May 2006. The pendulum has swung from fear to greed with foreign investors being big buyers of South African retailers. This has culminated in Wal-Mart recently offering to buy Massmart Holdings for R148 per share for an implied 19.5 times price-to-earnings ratio. Wal-Mart itself trades on 12.5 times 1-year forward earnings with approximately 25% of its earnings derived from faster growing emerging markets. While emerging markets are in much better fiscal shape than their developed market peers and retailers benefit from a stronger rand and lower interest rates, we believe that this is more than discounted in the current share prices. Retailers no longer offer compelling value based on our assessment of mid-cycle earnings and we have sold-out of our retail exposure with the exception of Spar, Woolworths and Mr Price. We continue to find value in selected small caps with many trading at around 6 times our assessment of normalised earnings. Approximately a third of the fund is now invested in shares outside the ALSI40.

The bond market returned 8% for the quarter, outperforming cash which returned 1.7%. We remain underweight bonds and believe that current yields do not compensate investors for upside risks to inflation and yield pressure from heavy issuance expected in the future. We currently own corporate bonds where yield is augmented by credit spreads which are approximately at our assessment of mid-cycle levels. We also find value in inflation-linked bonds given our view that there is significant upside risk to inflation expectations over the next few years (electricity tariffs, labour settlements, property rates and taxes). We remain negative on global bonds and believe that yields will have to rise to compensate investors for the risk of higher inflation in the future. Listed property returned 13.7% for the quarter. At current levels, property yields are too low and no longer offer value. As such, we have taken profits during the quarter.

In conclusion, equity markets are no longer cheap. Despite the bounce in markets during the quarter (which has continued into October), uncertainties remain. In a world of collapsing time horizons it is tough to hold a firm course and make the correct long-term decisions. It is essential that investment decisions are evaluated through the course of a full cycle. We have elected to do just that, setting emotion aside and concentrating our bets where our conviction leads us.

Portfolio managers

Karl Leinberger and Quinton Ivan

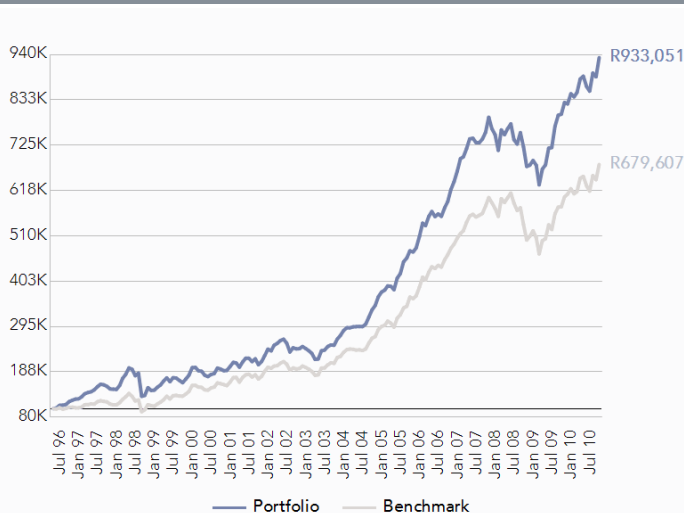
Fund category Domestic - Asset Allocation - Prudential Variable Equity
Fund description A fully managed investment solution diversified across the various asset classes and sectors. Its asset allocation is compliant with Regulation 28 of the Pension Funds Act.
Launch date 15 April 1996
Portfolio manager/s Karl Leinberger and Quinton Ivan

Fund size R 8.87 billion
NAV 5374.02 cents
Benchmark/Performance Fee Hurdle Composite (63% equity, 22% bonds, 10% international, 5% cash)

Risk profile  6/10
Moderate

PERFORMANCE AND RISK STATISTICS¹

GROWTH OF A R100,000 INVESTMENT



PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2010	%
Domestic Assets	79.0%	
Equities	46.1%	
Oil & Gas	4.8%	
Basic Materials	10.8%	
Industrials	5.4%	
Consumer Goods	4.2%	
Health Care	1.3%	
Consumer Services	8.3%	
Telecommunications	5.1%	
Financials	8.0%	
Technology	0.1%	
Derivatives	(1.9)%	
Preference Shares & Other Securities	0.1%	
Real Estate	4.4%	
Bonds	15.9%	
Cash	12.5%	
International Assets	21.0%	
Equities	19.8%	
Real Estate	0.4%	
Bonds	0.1%	
Cash	0.7%	

PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	833.1%	579.6%	253.4%
Since Inception (annualised)	16.8%	14.2%	2.5%
Latest 5 years (annualised)	14.5%	13.3%	1.2%
Latest 3 years (annualised)	7.3%	5.4%	1.9%
Latest 1 year (annualised)	16.8%	17.4%	(0.6)%
Year to date	10.1%	9.3%	0.9%
2009	23.0%	19.1%	3.9%
2008	(8.2)%	(9.2)%	1.0%
2007	13.1%	14.0%	(0.9)%
2006	30.5%	29.9%	0.6%

TOP 10 HOLDINGS

As at 30 Sep 2010	% of Fund
Coronation Gbl Opp Eqty Fd Cl A	12.7%
MTN Group Ltd	5.1%
Sasol Ltd	4.8%
Coronation Global Emerging Markets Fund	4.1%
Standard Bank of SA Ltd	3.9%
Naspers Ltd	3.5%
Anglo American Plc	2.9%
SABMiller Plc	1.8%
Capital Shopping Centre Group	1.8%
British American Tobacco Plc	1.6%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	15.4%	14.3%
Sharpe Ratio	0.33	0.18
Maximum Gain	57.9%	29.3%
Maximum Drawdown	(34.3)%	(31.9)%
Positive Months	66.5%	64.2%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Sep 2010	01 Oct 2010	54.08	21.60	32.48
31 Mar 2010	01 Apr 2010	41.79	9.75	32.04
30 Sep 2009	01 Oct 2009	37.80	10.78	27.02
31 Mar 2009	01 Apr 2009	131.97	89.72	42.25

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2010	(0.9)%	1.2%	3.8%	0.8%	(2.7)%	(1.3)%	5.0%	(1.0)%	5.1%				10.1%
Fund 2009	(1.6)%	(6.9)%	6.0%	1.5%	5.9%	0.2%	7.0%	3.4%	0.3%	3.5%	(0.4)%	2.9%	23.0%
Fund 2008	(5.0)%	6.8%	(1.5)%	1.9%	1.5%	(4.8)%	(1.4)%	3.7%	(4.5)%	(6.5)%	0.4%	1.7%	(8.2)%

FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee*	1.25%

* 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.

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 September 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 June 2010, as well as the actual performance fee incurred over the 12 months to end June 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.

Total Expense Ratio (TER) ²	1.34% per annum
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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.