

PORTFOLIO MANAGER COMMENTARY

Following a negative second quarter, the financial sector staged a recovery in the third quarter with a return of 15.2%. The insurers (up 20%) again outperformed the banks (14.5%). As detailed in previous commentaries, the fund holds a high weighting in banks, and consequently underperformed the index for the quarter, returning 13.7%. The result of the past 2 quarters' relatively disappointing short-term performance means that over one year the fund has generated returns roughly in line with those of the index (24.1% versus 24.3%). Over what we would consider to be the more important longer term periods, the fund continues to meaningfully outperform the benchmark.

The high return of the insurance sector is almost entirely attributable to the performance of Old Mutual. During the quarter it announced a transaction (not yet concluded) to dispose of its troubled US life business, as well as the proposed acquisition by HSBC of a controlling stake in Nedbank, of which Old Mutual owns 54%. These transactions are significant, particularly the former. As discussed in previous commentaries, the US life business presented the share with significant downside risk, to the extent that at the peak of the credit crisis it had the potential to threaten the solvency of the entire group. Disposing of this business will significantly alter the risk profile of the group, and one can now increase conviction in an assessment of any potential downside in the share price. The Nedbank transaction too is significant. If concluded, the proceeds will be used to reduce offshore debt levels and allow the company to resume the payment of more meaningful dividends. Not owning the share has cost the fund performance in the current quarter, but despite the reduction in risk profile the fund remains uninvested in the share. Over the long term Old Mutual has been a very poor performer for a number of reasons, not least of which is overpaying for assets in its internationalization strategy.



This in our view extends to the Skandia business, for which Old Mutual paid £4 billion in 2006, and carries at £3.75 billion in its most recently disclosed embedded value. More than half of the profits of this business are earned by the UK Wealth Management unit, where we believe it will be extremely challenging to defend the current earnings base as regulatory reform and increased product commoditization start to erode margins. The share price has appreciated to a level close to that which we would consider to be fair value for the group. While the downside risk has been significantly reduced, we feel that the market has adequately priced the opportunity in the share and it therefore holds little attraction for us.

Contributors to performance for the quarter came from the fund's holdings in Coronation, Nedbank (benefiting from the HSBC bid) as well as CapCo and CSC (previously together as Liberty International). Aside from not owning Old Mutual, detractors from performance were the fund's holdings in Metropolitan, Discovery and Standard Bank.

We have started to see the investment case for the fund's heavy weighting in banks play out – i.e. the unwind of bad debt provisions and the resulting reduction in the bad debt expense as the benefit of lower interest rates is felt in the pockets of consumers. It would be fair to say that in the June reporting season, the extent of this unwind has been somewhat disappointing from our point of view, with the possible exception of FirstRand. However, we believe that this is largely an opportunity deferred, and expect to see a more definitive unwind in the next 6 to 12 months.

Real wage increases and yet another interest rate cut in the quarter is undoubtedly good for those consumers still employed, and hence for the banks' retail businesses. However, we are increasingly concerned that corporates are able to afford these increases only by managing the entire wage bill, i.e. reducing the workforce. Consequently pressure on levels of employment combined with a stronger rand and its impact particularly on the manufacturing and mining sectors causes us to be slightly more cautious on the prospects for the domestic economy, and hence on some of the other important drivers of bank earnings, particularly loan growth.

Portfolio managers

Neill Young and Godwill Chahwahwa

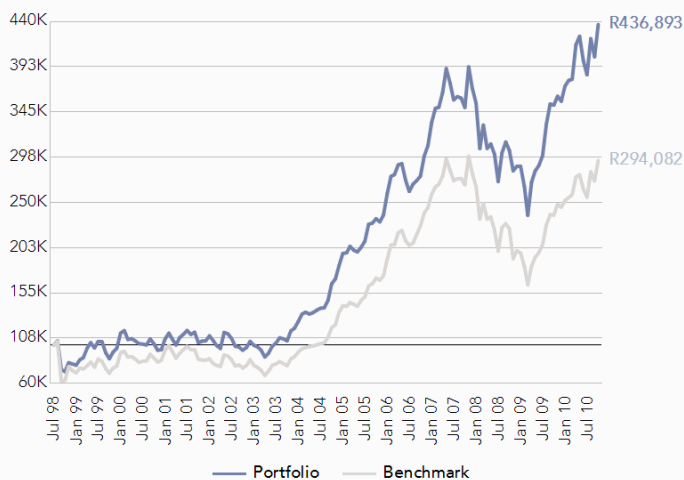
Fund category Domestic - Equity - Financial
Fund description Invests in a broad range of financial shares, including banks, insurance and investment companies.
Launch date 01 July 1998
Portfolio manager/s Neill Young and Godwill Chahwahwa

Fund size R226.01 million
NAV 2981.49 cents
Benchmark/Performance Fee Hurdle FTSE/JSE Financial Index
Risk profile



PERFORMANCE AND RISK STATISTICS¹

GROWTH OF A R100,000 INVESTMENT



PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2010	100%
Domestic Assets	97.3%	
■ Equities	91.8%	
Industrials	1.7%	
Financials	90.1%	
■ Real Estate	4.1%	
■ Cash	1.3%	
International Assets	2.7%	
■ Real Estate	2.7%	

PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	336.9%	194.1%	142.8%
Since Inception (annualised)	12.8%	9.2%	3.6%
Latest 5 years (annualised)	13.4%	11.5%	1.9%
Latest 3 years (annualised)	7.7%	3.1%	4.6%
Latest 1 year (annualised)	24.1%	24.3%	(0.2)%
Year to date	17.4%	16.7%	0.7%
2009	29.2%	28.0%	1.2%
2008	(18.7)%	(26.2)%	7.5%
2007	6.1%	3.0%	3.0%
2006	28.8%	35.8%	(7.0)%

TOP 10 HOLDINGS

As at 30 Sep 2010	% of Fund
Standard Bank of SA Ltd	22.5%
FirstRand	12.4%
ABSA Group Ltd	10.0%
Nedbank Group Ltd	8.4%
Metropolitan Life Ltd	8.3%
Discovery Holdings Ltd	5.8%
Coronation Fund Managers Limited	4.9%
Investec Bank Limited	4.7%
Capital Shopping Centre Group	4.1%
FirstRand	3.1%

RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	22.1%	23.9%
Sharpe Ratio	0.09	(0.06)
Maximum Gain	53.6%	80.4%
Maximum Drawdown	(39.7)%	(45.3)%
Positive Months	60.5%	61.2%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Sep 2010	01 Oct 2010	30.22	29.45	0.77
31 Mar 2010	01 Apr 2010	13.97	13.27	0.70
30 Sep 2009	01 Oct 2009	11.75	10.77	0.98
31 Mar 2009	01 Apr 2009	105.06	104.06	1.00

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2010	1.6%	0.3%	9.6%	2.1%	(6.1)%	(3.7)%	9.9%	(4.5)%	8.4%				17.4%
Fund 2009	(7.4)%	(11.4)%	14.7%	4.4%	2.1%	3.6%	11.0%	6.4%	(0.4)%	2.7%	(1.5)%	4.5%	29.2%
Fund 2008	(13.5)%	8.1%	(7.4)%	1.6%	(3.6)%	(9.5)%	11.1%	3.8%	(2.8)%	(7.0)%	1.7%	0.0%	(18.7)%

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.	
Total Expense Ratio (TER)²	1.46% 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 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.

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.