

## PORTFOLIO MANAGER COMMENTARY

What a difference one quarter makes. In our previous commentary we wrote that the MSCI Emerging Index fell almost 20% (in US dollar terms) from mid April to late May. This past quarter saw the index rise 18.2% and we are pleased that the fund outperformed its benchmark by 1.06% during this period (in rand terms). We would however rather be evaluated over longer and more meaningful time periods. In this regard, the fund has outperformed the MSCI Emerging Markets Index by 5.3% p.a. (in rands) on an annualised basis over the almost 3 years since inception.

There was only one name change in the top ten holdings of the fund during the quarter. Petrobras (still a top 12 position) was replaced by Banco Santander Brazil, a holding to which we've added substantially over the period. The long-term fundamentals for the banking sector in Brazil are very positive in our view (high GDP growth rates, rising disposable incomes, declining unemployment and low banking penetration). Within the sector we believe that Banco Santander Brazil is amongst the best managed banks with the most potential to increase ROE's over time (toward the 20% level from the current 12% level). The bank is also very well capitalised, in fact overcapitalised in our view, and as such has plenty of room to grow their loan book. The bank trades on 11x what we believe it will earn over the next year, with a 5% dividend yield, which we believe is very attractive.

China Unicom, C&O Pharmaceutical and Colgate Palmolive were all introduced into the fund. We sold holdings in Telefonica on concerns that they would end up overpaying for Brasilcel (a Brazilian telecommunications company), Anadolu Efes (Turkish listed brewer and beverage company) as it reached our fair value and Brazilian education company Sistema which received an offer for their learning system division by the Pearson Group.

China Unicom is a provider of both fixed and mobile telecommunication products that is trading on 8x our estimate of normalised free cash flow. While the traditional fixed line voice offering is in decline, we believe an opportunity lies in their broadband and data offering. In 2009, Chinese internet penetration reached 19%: meaning 2 out of every 10 people in China have access to the internet. Korea (an example of a more developed Asian country) reached 19% penetration in 1999. Current penetration for the US and Korea are both around 72%, while penetration in China is 25% today. Astonishingly, there are already more internet users in China (approaching 400 million) than there are in the US (220 million), yet China only has internet penetration of 25% compared to 72% in the US. China doesn't need to reach 70% penetration (US and Korea levels) for there to be significant growth ahead – a move from 25% to 50% penetration would add another 400 million internet users. Besides China Unicom, the fund also has a number of other large holdings in internet companies (portals and/or online gaming companies) that will benefit from increasing internet usage in China including Naspers (through its Tencent stake), Netease.com, Sohu.com and Perfect World. The latter 3 all have large net cash balances (ranging from 15% to 25% of current market caps) and are trading on low double-digit ratings excluding the net cash, which we believe is very attractive given expected double-digit earnings growth rates for a number of years ahead.

C&O Pharmaceutical is a small Singapore-listed Chinese generic pharmaceutical company which we believe has been overlooked by investors. The Chinese healthcare market is one of the most underserved in the world with 50% of urban residents not having sufficient healthcare and 30% of the rural population not having any form of healthcare. The 4-2-1 (grandparents, parents and child) family structure means that China has a rapidly aging population requiring increased medical spend. As part of their plan to combat the impact of the global recession, the state's healthcare spend was increased substantially to US\$130 billion over the 2009-2012 period. The market for pharmaceutical products has grown in excess of 20% for the past five years. C&O core operations are focused on the production and sale of finished goods. The product portfolio include their own proprietary products and the exclusive distribution under licence for Hong Kong and Japanese pharmaceutical companies. The business is a strong cash generator and continues to distribute excess capital to shareholders having declared two special dividends this year. The share trades on 10x this year's earnings with a 4% dividend yield.

The inflows into emerging market equities have resulted in a number of stocks in our universe trading above what we believe is fair value. Whilst we are still uncovering selected very good value within emerging markets (reflected in the fact that the equity exposure is still around 90%), we do not restrict ourselves to companies listed on emerging market exchanges – we also consider those listed on developed exchanges which today generate a large portion of their earnings (at least 40%+) from emerging markets. Colgate Palmolive is an example where 50% of revenues are generated from emerging markets. We initially analysed Colgate Palmolive India (51%-held subsidiary of the US-based mothership), but concluded that it was too expensive and did not provide us with the margin of safety that we insist on. This however led us to take a detailed look at the holding company (US-listed Colgate Palmolive). The business owns a collection of great brands that dominate their categories in many cases. Operating margins are consistently over 20% and due to this as well as high asset turns the business generates ROE's north of 70%. Earnings per share has grown by 10.6% p.a. over the past 20 years and dividends per share by 10.4% over the same time period. Today one can buy this high quality business on just 14x what we believe the business will earn over the next year, which we believe provides an attractive risk-reward payoff.

**Portfolio managers**

Gavin Joubert, Mark Butler and Suhail Suleman

# CORONATION GLOBAL EMERGING MARKETS FLEXIBLE [ZAR] FUND

**CORONATION**  
FUND MANAGERS

CLASS A as at 30 September 2010

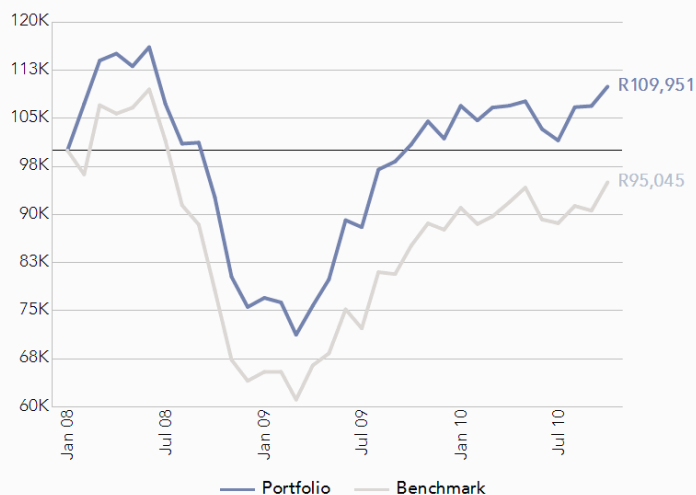
**Fund category** Foreign - Asset Allocation - Flexible  
**Fund description** Aims to provide long-term capital appreciation by investing in global emerging markets.  
**Launch date** 28 December 2007  
**Portfolio manager/s** Gavin Joubert, Mark Butler and Suhail Suleman

**Fund size** R555.12 million  
**NAV** 107.40 cents  
**Benchmark/Performance Fee Hurdle †** MSCI Emerging Markets Index  
**Risk profile**

**9/10**  
Aggressive

## PERFORMANCE AND RISK STATISTICS<sup>1</sup>

### GROWTH OF A R100,000 INVESTMENT



### PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	10.0%	(5.0)%	14.9%
Since Inception (annualised)	3.5%	(1.8)%	5.3%
Latest 1 year (annualised)	8.9%	11.6%	(2.7)%
Year to date	2.8%	4.4%	(1.6)%
2009	38.9%	39.1%	(0.2)%
2008	(23.0)%	(34.5)%	11.5%

### RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Return	3.5%	(1.8)%
Annualised Deviation	18.8%	21.3%
Sharpe Ratio	(0.33)	(0.54)
Maximum Gain	25.1%	23.0%
Maximum Drawdown	(38.6)%	(44.2)%
Positive Months	60.6%	51.5%

### MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2010	(2.1)%	1.9%	0.3%	0.7%	(4.0)%	(1.7)%	5.1%	0.2%	2.8%				2.8%
Fund 2009	(0.9)%	(6.6)%	6.4%	5.4%	11.6%	(1.2)%	10.2%	1.3%	2.7%	3.6%	(2.6)%	5.0%	38.9%
Fund 2008	7.2%	6.3%	1.0%	(1.7)%	2.6%	(7.6)%	(5.8)%	0.2%	(8.4)%	(13.4)%	(5.9)%	1.9%	(23.0)%

### FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee - performance related*	Minimum: 1.50% Maximum: 3.50% 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.

When applicable, Coronation shares in the fund performance above the performance fee hurdle. This performance fee is accrued daily, based on performance over a rolling 12-month period, and paid to Coronation monthly. If the fund produces a return in line with or below the benchmark, the minimum fee will be levied.

For further information regarding our fee structure please contact us or visit our website.

Total Expense Ratio (TER) <sup>2</sup>	2.15% per annum
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† Please note that the benchmark of USD 3-month LIBOR+5% p.a. has changed with effect 5 August 2008.

## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Country	30 Sep 2010
<b>Equities</b>	<b>92.31%</b>
China	21.08%
Brazil	13.55%
South Africa	8.26%
Russia	6.33%
Israel	6.05%
Turkey	5.46%
Greece	4.83%
United States	4.54%
Mexico	3.10%
India	2.96%
Other	16.13%
<b>Cash</b>	<b>7.69%</b>
ZAR	3.89%
USD	1.76%
Other	1.73%
HKD	0.30%

### TOP 10 HOLDINGS

As at 30 Sep 2010	% of Fund
AO Gazprom Reg (Russia)	5.3%
Naspers Ltd (South Africa)	5.2%
MTN Group Ltd (South Africa)	4.9%
Turkiye Garanti Bankasi (Turkey)	4.7%
Teva Pharmaceutical Industries Ltd (Israel)	3.8%
Sohu.com Inc (China)	3.7%
Netease.com Inc (China)	3.7%
Banco Santander (Brazil)	3.1%
Bank of Baroda (India)	3.0%
China Dongxiang Group Co (China)	2.8%

### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Sep 2010	01 Oct 2010	0.17	0.17	0.00
30 Sep 2009	01 Oct 2009	0.12	0.11	0.01
30 Sep 2008	01 Oct 2008	0.93	0.91	0.02

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 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. <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 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.