

## PORTFOLIO MANAGER COMMENTARY

The general nervousness and see-saw movements in markets continued to prevail this past quarter. This year we have seen markets sharply appreciate, followed by a big correction and then another upward move. All in all, global markets are marginally positive in USD year-to-date. Global bonds, particularly emerging market (EM) bonds have continued to appreciate, and as money floods into EM bonds in search of yield, EM currencies continued to strengthen. South Africa (representing over 10% of the Global EM Bond Index) has been a prime beneficiary of these flows and the ZAR has continued to strengthen as a result. Year-to-date, the currency has appreciated by 6.4%. The Citigroup Global Bond Index is marginally positive (+0.6%) year-to-date, and the MSCI World Index is -3.2% over the same period. Against this background, the fund is marginally negative (-1.8%) year-to-date and approximately +4.5% in USD over the same period. Since the fund launched just under a year ago, it has appreciated by 10.7% in dollars and has outperformed its benchmark by 2.8%. The ZAR returns for the fund (-1.4%) have been muted as a result of the currency's strength.

We continue to believe that globally bonds are overvalued and getting more so by the day. The fund has nothing invested in government bonds and only a small amount (3% of fund) invested in corporate bonds. We are finding good value in selected listed property stocks and around 5% of the fund is invested in this area. We continue to believe that there is very good selected value in global equities, particularly in the large cap high quality companies and a large part of the fund is invested in this area (Johnson & Johnson, Coca-Cola, Wal-Mart, McDonalds, YUM Brands, Colgate Palmolive, Heineken and Tesco). Given the attractive valuations of so many of these businesses, the equity exposure of the fund (mid 70% level) is at the high end of where we would expect it to be over time.

We also believe a number of the US technology companies are very attractive and the fund has a number of holdings in this area (Symantec, Microsoft, Oracle, Hewlett Packard, IBM, Google and Cisco). Valuations for most of the companies mentioned are at multi-year lows after 10 years of flat global equity markets. IBM's share price for example just recently passed its previous all-time high in 1998. So IBM's share price has done nothing for 12 years! The starting point of course was a high valuation, driven by the TMT bubble. What is more important is that today, after growing the business year after year at the same time that the share price did nothing, IBM trades on just over 11x free cash flow. We think this is very attractive for what we would consider to be an above average business.

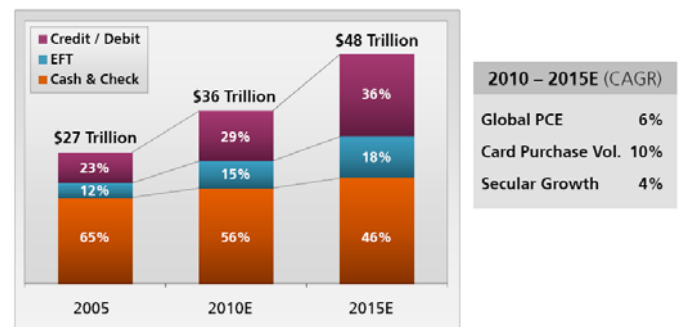
We also continue to find new ideas, particularly in the US, where the market seems to get more and more short-term focused every day. This creates opportunities if one has a longer time horizon. An example of this in our view is the recent rapid share price declines of the world's two largest card processors - Mastercard and Visa. We were buyers of both shares (together they make up 4% of the fund today) as we believe the market is focusing too much on one issue and ignoring all of the positives of these businesses. Although the drivers of these two companies are very similar, our discussion below will focus on Mastercard as it is the larger position.

The issue the market is currently focusing on is that of regulation, specifically in the US. A new bill was tabled in the US called the Durbin amendment, which proposes a number of new regulations that will negatively impact the card processors. Whilst we agree with the fact that the proposed changes will negatively impact the processors, it is our view that the impact is likely to be manageable. More importantly, following the share price declines, it is also our view that this impact is more than priced in. We would also make the point that whilst it is possible for regulatory pressure to increase in countries other than the US, the interchange fees (one of the key areas being targeted by the proposals) in the US are at the high end of all markets globally.

So at this point, the regulations are specific to the US, and in fact are specific to debit cards only. In this regard, markets outside of the US (in particular emerging markets) are growing much faster than the US market. If we consider Mastercard, emerging markets already make up around 30% of revenue and this percentage is increasing rapidly. Total non-US revenues for Mastercard today are 55%, meaning that the US already makes up less than half (45%) the business. The US contribution will continue to decline given the fact that credit and debit card purchase volumes are growing twice as fast outside the US as they are in the US. Mastercard's US revenue grew at 10% CAGR from 2006-2009 whereas their international revenue grew at 21% CAGR over the same 2006-2009 period. Credit and debit card take-up in emerging markets (and even in Europe) is far below that of the US and will undoubtedly increase at a rapid rate over the next several years. Today for example, 40% of all consumer spend in the US is done by credit or debit card (this percentage on its own will increase over the next several years) whereas in a country like Brazil (whose economy is growing at over twice the rate of the US), only 20% of consumer spend is made using a credit or debit card.

The table below shows how the use of credit and debit cards has increased over the past 5 years globally (from 23% of all consumer spend in 2005 to 29% of all consumer spend in 2010). It also shows Mastercard's forecasts for what they expect over the next 5 years - for credit/debit card spend to make up 36% of all consumer spend from 29% today. Given that global consumer spend is in the trillions of dollars, a move from 29% of all spend to 36% of all spend is a huge number.

## Personal Consumption Expenditure (PCE)



Source: EIU, Euromonitor and MasterCard internal estimates

2010 - 2015E (CAGR)	
Global PCE	6%
Card Purchase Vol.	10%
Secular Growth	4%

Besides having very favourable long-term drivers (a switch from paper to plastic), the card processors have a largely fixed cost base (meaning that revenue increases translate into even higher profit increases, and vice versa of course) and they also require very little capital to grow. They also generate large amounts of free cash flow and convert all of their earnings into free cash flow. Mastercard have provided 2011-2013 revenue guidance in the low double-digits and EPS growth of 20%+. We would be more conservative than this and feel that EPS growth of 15% over the next number of years is very achievable, taking into account downward pressure in the US. Today Mastercard trades on approximately 15x this year's earnings excluding their net cash position (and was trading at a much lower valuation than this at the fund's average purchase price). We feel this is very attractive for a business of this quality.

## Portfolio manager

Gavin Joubert

# CORONATION GLOBAL MANAGED [ZAR] FUND

CLASS A as at 30 September 2010

**CORONATION**   
FUND MANAGERS

**Fund category** Foreign - Asset Allocation - Flexible  
**Fund description** Diversified exposure to global assets with a focus on maximising returns over the long term.  
**Launch date** 29 October 2009  
**Portfolio manager/s** Gavin Joubert

**Fund size** R78.03 million  
**NAV** 98.22 cents  
**Benchmark/Performance Fee Hurdle** Composite: 60% MSCI (TR) Index & 40% Citigroup World Government Bond Index

**Risk profile**



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

### INVESTMENT MANDATE

Global Managed is managed with the aim of maximizing risk adjusted returns available from a global portfolio. The portfolio is constructed on a clean slate basis and is broadly diversified across countries, including the developed economies of the US, Europe and Japan as well as emerging markets. It can invest in all listed asset classes including shares, listed property, conventional bonds, inflation-linked bonds, cash and other appropriate instruments. Up to 20% of the fund can be invested with other fund managers, selected for specific specialised skills. Exchange traded funds and other liquid instruments that enable the most efficient implementation of specific views may be used. Active asset allocation and security selection strategies appropriate to the needs of investors with medium to longer time horizons are followed. The intent is to keep the fund fully invested in foreign assets at all times.

## PORTFOLIO DETAIL

### GEOGRAPHIC ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2010
<b>Equities</b>	<b>75.9%</b>
North America	44.6%
Europe	19.5%
Asia	6.6%
Japan	4.0%
Latin American	1.1%
<b>Gold</b>	<b>3.7%</b>
<b>Property</b>	<b>4.7%</b>
Asia	2.5%
Europe	1.2%
Japan	1.0%
<b>Bonds</b>	<b>3.0%</b>
Europe	2.0%
North America	0.9%
<b>Cash</b>	<b>12.7%</b>
USD	10.7%
ZAR	1.0%
Other	1.0%

### PERFORMANCE FOR VARIOUS PERIODS - ZAR RETURNS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	(1.4)%	(3.9)%	2.5%
Year to date	(1.8)%	(1.3)%	(0.5)%

### TOP 10 HOLDINGS

As at 30 Sep 2010	% of Fund
SPDR Gold Trust	3.7%
CVS Caremark Corp	2.3%
MasterCard Inc	2.2%
Teva Pharmaceutical Industries Ltd	2.2%
Johnson & Johnson	2.2%
Symantec Corp	2.2%
Hewlett-Packard Company	2.1%
Safeway Inc	2.1%
Visa Inc	2.1%
Warner Music Group Corp	2.0%

### PERFORMANCE FOR VARIOUS PERIODS - USD RETURNS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	10.7%	7.9%	2.8%
Year to date	4.4%	5.0%	(0.5)%

### MONTHLY PERFORMANCE - ZAR RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2010	0.3%	1.5%	(1.6)%	1.3%	(3.9)%	(2.2)%	0.6%	(0.5)%	2.8%				(1.8)%
Fund 2009											(2.2)%	2.7%	0.5%
Fund 2008													0.0%

### FEES (excl. VAT)

<b>Initial Fee</b>	Coronation: 0.00%
<b>Annual Management Fee - performance related*</b>	Minimum: 1.35% Maximum: 2.35% 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 for the relevant 12-month period, the minimum fee applies. For further information regarding our fee structure please contact us or visit our website.

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. 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)<sup>2</sup>

The TER cannot be accurately determined and will be in line or higher than the quoted annual management fee.

### 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.