

## PORTFOLIO MANAGER COMMENTARY

For the past year to 30 September 2010, the fund returned 20.5%, placing it third relative to its competitor funds. Over the past three years, the fund has returned -2.5% per annum, placing it fourth on a relative basis. While the three-year performance number looks poor on an absolute basis, the starting point of September 2007 was very close to the peak level the fund had reached.

While the fund is called a "Small Cap" fund, its mandate allows investment outside of the top 40 shares listed on the JSE. As such, the fund's benchmark can be viewed as a mid and small cap market-capitalisation-weighted portfolio. Interestingly, this benchmark portfolio would comprise 86% mid caps and 14% small caps, and would have fared fantastically well in the past 3 years considering the significant underperformance of small caps relative to mid caps, as depicted in the chart below.



This outperformance has been driven by the strong performance of retail and property stocks, which dominate the mid cap index, and which have benefitted from low interest rates and the strong rand. While this might continue for some time still, we believe the share prices do not leave much room for error, and that risks to the downside exceed risks to the upside. As such, the fund currently has no holdings in clothing, furniture or food retailers.

Currently, 29% of the fund is invested in mid caps (way below the benchmark's 86%), with the balance being invested in smaller companies. This is an indication of where we believe most of the value exists in the investable universe. Part of the reason why the fund is able to invest the bulk of its cash in genuine small caps is the small fund size. At only R140 million, the fund is smaller than its peers. This enables the fund to invest in small companies and for these positions to be meaningful enough to make a difference.

The fund continues to seek out opportunities, some of which might at first raise a few eyebrows. The investment in York Timber 9 months ago would probably fit into this category. The fund (and other Coronation funds) underwrote the York rights issue at a time when the company was in a fair amount of distress. Since then, the company has made great strides to right-size the business for the current tough environment and will benefit from any pick-up in building activity. The investment has been a good one for the fund, up over 60% in less than a year. The recent investment in Buildmax, the contract miner, would fit into the same category. We think the end result may be similar to our York experience.

The fund trades on a forward PE of 9.5 times, nearer to the high-end of the 6.1 times to 11 times range it has traded in since March 2005. As such, we believe the fund is well placed to deliver reasonable, but not spectacular returns in the medium term (bearing in mind that the current low interest rate environment is very positive for equity prices, and slightly higher PE's are justified).

**Portfolio manager**

Alistair Lea

**Fund category** Domestic - Equity - Smaller Companies  
**Fund description** Invests in small and mid-capitalisation companies, developing industries and recovery shares.  
**Launch date** 01 April 1997  
**Portfolio manager/s** Alistair Lea

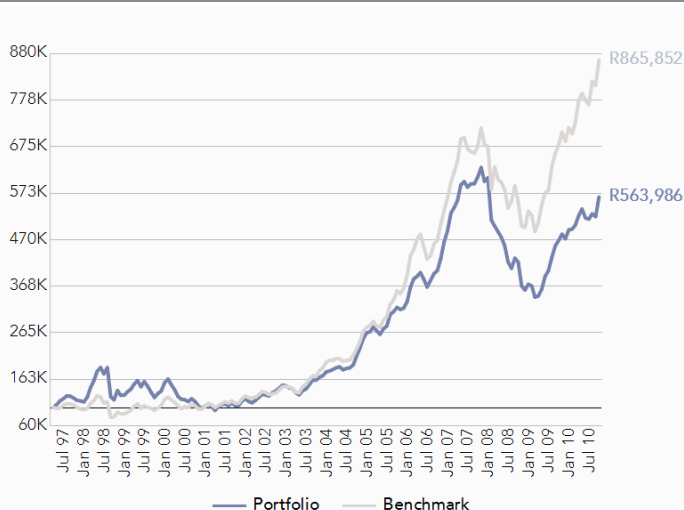
**Fund size** R139.08 million  
**NAV** 4146.58 cents  
**Benchmark/Performance Fee Hurdle** Composite: FTSE/JSE Africa Mid & Small Cap Indices

**Risk profile**



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

### GROWTH OF A R100,000 INVESTMENT



## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2010	
<b>Domestic Assets</b>	<b>96.3%</b>	
■ <b>Equities</b>	<b>94.1%</b>	
Basic Materials	13.5%	
Industrials	41.4%	
Consumer Goods	13.9%	
Consumer Services	14.5%	
Financials	6.4%	
Technology	4.4%	
■ <b>Cash</b>	<b>2.2%</b>	
<b>International Assets</b>	<b>3.7%</b>	
■ <b>Equities</b>	<b>0.8%</b>	
■ <b>Real Estate</b>	<b>2.9%</b>	

## PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	464.0%	765.9%	(301.9)%
Since Inception (annualised)	13.7%	17.3%	(3.7)%
Latest 5 years (annualised)	11.9%	19.4%	(7.4)%
Latest 3 years (annualised)	(2.5)%	8.6%	(11.1)%
Latest 1 year (annualised)	20.5%	27.7%	(7.2)%
Year to date	14.7%	20.8%	(6.1)%
2009	32.2%	34.5%	(2.3)%
2008	(38.7)%	(21.1)%	(17.6)%
2007	23.8%	20.3%	3.5%
2006	46.7%	43.3%	3.5%

## TOP 10 HOLDINGS

As at 30 Sep 2010	% of Fund
Famous Brands Ltd	5.9%
Omnia Holdings Ltd	5.2%
Ceramic Industries Ltd	4.5%
Mobileind Convdebs	4.2%
Advtech Ltd	4.1%
DAWN Ltd	3.8%
Zeder Investments Ltd	3.5%
Bowler Metcalf Ltd	3.5%
AECI Ltd	3.3%
Pioneer Food Group	2.9%

## RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	21.7%	19.2%
Sharpe Ratio	0.11	0.32
Maximum Gain	67.2%	62.6%
Maximum Drawdown	(50.2)%	(38.2)%
Positive Months	63.0%	61.1%

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Sep 2010	01 Oct 2010	22.28	19.98	2.30
31 Mar 2010	01 Apr 2010	52.83	47.08	5.75
30 Sep 2009	01 Oct 2009	51.76	46.16	5.60
31 Mar 2009	01 Apr 2009	41.84	37.99	3.85

## MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2010	0.3%	1.8%	4.1%	2.8%	(3.7)%	(0.4)%	2.2%	(1.1)%	8.3%				14.7%
Fund 2009	(1.1)%	(6.7)%	0.8%	4.2%	7.9%	3.3%	7.3%	5.9%	2.6%	3.0%	(2.1)%	4.2%	32.2%
Fund 2008	(15.3)%	(2.5)%	(2.5)%	(2.5)%	(3.9)%	(7.8)%	(3.5)%	5.5%	(2.0)%	(12.5)%	(2.5)%	3.6%	(38.7)%

## FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee*	1.00%
* 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.	
Total Expense Ratio (TER) <sup>2</sup>	1.13% 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). <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, 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.