

## PORTFOLIO MANAGER COMMENTARY

The fourth quarter of 2011 was a very strong period for preference shares, with the fund returning 6.63% and bringing the year's return to 6.53% versus the benchmark (3-month SteFI after 40% tax) return of 3.29%. Since inception and over three years, the fund has outperformed its benchmark, returning 6.9% versus 4.9% and 11% versus 4.1% respectively. We therefore continue to believe that, despite shorter term price volatility in the preference share market, over the long term, the fund provides attractive, after-tax returns when compared to cash.

The strong rally for the quarter was driven largely by bank preference shares which showed meaningful price appreciation, while corporate preference shares lagged. Our holdings in corporate preference shares would therefore have detracted from performance for the period. Longer term, we are comfortable with the companies whose preference shares we are invested in and believe that an appropriate allocation to corporate preference shares adds to total returns in the long term via higher yields as well as reducing risk (corporate preference shares are cumulative) and increasing diversification.

From 1 April 2012, Secondary Tax on Companies (STC) will be replaced by dividend tax, a withholding tax paid over by the issuer or intermediary for a private individual or trust. For preference shares, ordinarily this would have resulted in a reduction in the net dividends received by investors by an amount equal to the quantum of the dividend tax, being 10%. However, issuers of preference shares have committed to ensuring that the investors are not prejudiced by this change. All the preference shares we are invested in will increase the dividend payout by the amount of STC saved, such that on a net basis, after paying dividend tax, the investor is left in what is largely the same position as they were prior to these changes. As a result, we do not expect that the net, after tax returns from our fund will be adversely impacted by these tax changes.

Given rising inflation pressures, we expect the next move in interest rates to be up, starting in the second half of the year. Bank preference shares currently offer yields between 6.3% and 6.5%, while corporate preference shares yield between 7.2% and 8.5% compared to short-term cash rates around the 5.5% level pre-tax or 3.3% after 40% tax. We therefore continue to see significant value in the preference share market for the investor with a long time horizon and seeking attractive after tax returns. On a weighted basis, our fund currently yields an estimated 7%.

### **Portfolio managers**

Tania Miglietta and Godwill Chahwahwa

# CORONATION PREFERENCE SHARE

CLASS A as at 31 December 2011

**Fund category** Domestic - Fixed Interest - Varied Specialist  
**Fund description** Aims to maximise yield in the form of dividend income by investing in a range of quality listed preference shares  
**Launch date** 02 October 2006  
**Portfolio manager/s** Tania Miglietta and Godwill Chahwahwa

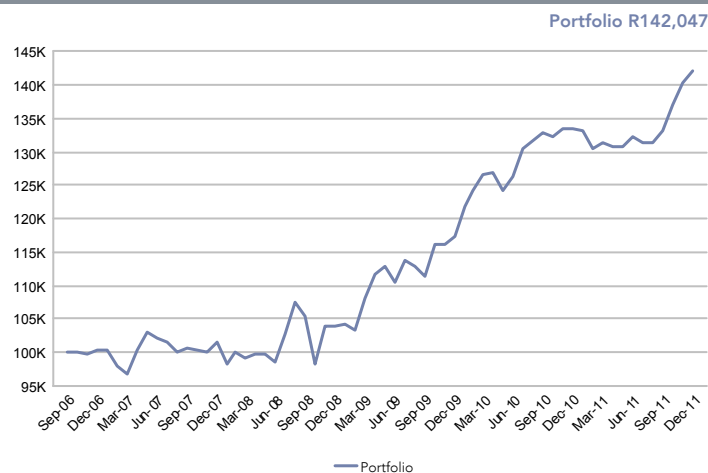
**Fund size** R362.62 million  
**NAV** 93.79 cents  
**Benchmark** Alexander Forbes 3-month (STeFI) Index, adjusted for maximum individual tax rate

**Risk profile**



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

### GROWTH OF A R100,000 INVESTMENT



### PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Launch (unannualised)	42.1%	31.4%	10.7%
Since Launch (annualised)	6.9%	5.0%	1.9%
Latest 5 years (annualised)	7.2%	5.0%	2.2%
Latest 3 years (annualised)	11.0%	4.1%	6.8%
Latest 1 year (annualised)	6.5%	3.3%	3.2%
Year to date	6.5%	3.3%	3.2%
2010	13.6%	3.9%	9.7%
2009	12.9%	5.2%	7.7%
2008	2.3%	7.0%	(4.7)%

### RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	7.4%	0.6%
Sharpe Ratio	(0.25)	(0.73)
Maximum Gain	9.3%	52.3%
Maximum Drawdown	(8.6)%	0.00
Positive Months	57.1%	100.0%

### MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2011	(0.2)%	(2.0)%	0.8%	(0.6)%	0.2%	1.0%	(0.5)%	0.0%	1.3%	2.8%	2.4%	1.2%	6.5%
Fund 2010	3.8%	2.1%	1.7%	0.3%	(2.2)%	1.8%	3.3%	0.9%	0.9%	(0.4)%	0.8%	(0.1)%	13.6%
Fund 2009	0.1%	(0.6)%	4.4%	3.3%	1.2%	(2.2)%	3.0%	(0.7)%	(1.4)%	4.2%	0.0%	1.1%	12.9%

## PORTFOLIO DETAIL

### ASSET ALLOCATION AND EXPECTED EFFECTIVE YIELD

As at 31 Dec 2011	Weight	Annualised Yield	Contributions to overall Yield
Bank issued preference shares	67.53%	6.49%	4.38%
Corporate issued preference shares	29.56%	7.51%	2.22%
Convertible preference shares	0.00%	0.00%	0.00%
Ordinary equity	0.00%	0.00%	0.00%
Cash (pre-tax)	2.91%	6.12%	0.18%
<b>Gross Yield</b>			<b>6.78%</b>
Less: Total expense ratio <sup>2</sup>			(0.71%)
Less: Trading costs <sup>2</sup>			(0.28%)
<b>Net expected effective yield</b>			<b>5.79%</b>

This yield estimate is provided to give an indication of the achievable yield for an investment made at the reporting date. Actual experience may differ, based on changes in market values, official interest rates and changes in costs actually experienced during the investment period.

### TOP 10 HOLDINGS

As At 31 Dec 2011	Yield	Rating
Absa Preference Shares	6.48%	AA+
Stndrd Bank Group Pref Shares	6.44%	AA
Firststrand Limited Pref Shares	6.32%	AA
Network Healthcare Pref	7.20%	A
Investec Non Red Cum Pref	7.05%	A+
Discovery Hldgs Ltd Pref	7.36%	
Nedbank Non Cum Prefs	6.43%	AA-
Grindrod Limited Prefs	7.70%	BBB-
Psg Preference Share	7.70%	A-
African Bank Pref	7.52%	A+

### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Dec 2011	03 Jan 2012	0.80	0.80	0.00
30 Sep 2011	03 Oct 2011	1.62	1.57	0.05
30 Jun 2011	01 Jul 2011	0.82	0.81	0.01
31 Mar 2011	01 Apr 2011	1.98	1.95	0.03

## FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee	0.60%
Total Expense Ratio (TER) <sup>2</sup>	0.71% 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 as calculated by Coronation as at 31 December 2011 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 September 2011. 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.