

PORTFOLIO MANAGER COMMENTARY

The fund delivered a negative return of 2.52% for 2011, which is well below the average competitor fund return of +3.24%. Needless to say, we are disappointed with this short-term performance. However, this follows two years of returns in excess of 20% delivered by the fund since the global market recovery that commenced in 2009. The fund has returned 18.3% p.a. over a period of three years, placing it fifth out of seven competing funds.

Despite 30-year-plus low interest rates, the economic environment over the past year proved to be very difficult for many companies. Whilst some sectors of the economy, most notably clothing retailers and unsecured lending, have benefitted from low rates, the growth in the rest of the domestic economy has been sluggish. Economic activity in recruitment, construction, secured lending and building materials is still subdued with no sign of immediate recovery.

We have used this period of pessimism in some of these sectors to build meaningful positions in various companies which we believe are deeply undervalued. While this has been a drag on short-term performance, we believe that we have invested in these companies at a large discount to their mid-cycle intrinsic value. As such we expect that we will be rewarded with good returns in future. We do however acknowledge that difficult times may be with us for a while, which is why we have dedicated the bulk of the portfolio to high quality businesses that should be able to grow earnings despite the tough environment.

A weakened currency is likely to be a feature in the year ahead. Our exposure to rand hedge stocks (businesses that benefit from a weak currency) should stand us in good stead. The list of rand hedge stocks in the portfolio includes companies such as Omnia, Trencor, Hudaco and Grindrod.

The fund trades on a 1-year forward PE of 9.4 times, close to its average level of the past six years. Based on our assessment of normal earnings for each company in the fund, the forward PE on normal earnings is 7.4 times. This implies that we consider the level of earnings of the companies held by the fund to be on average 22% below normal. As such, on a medium-term basis we would expect the fund to benefit from both a normalisation of earnings, as well as a small re-rating. Considering the confusing macro situation in the world currently, markets are likely to remain volatile in the short term, but based on the above metrics, we remain positive on the medium to long-term prospects of mid and small cap shares in South Africa.

Portfolio managers

Alistair Lea and Siphamandla Shozi

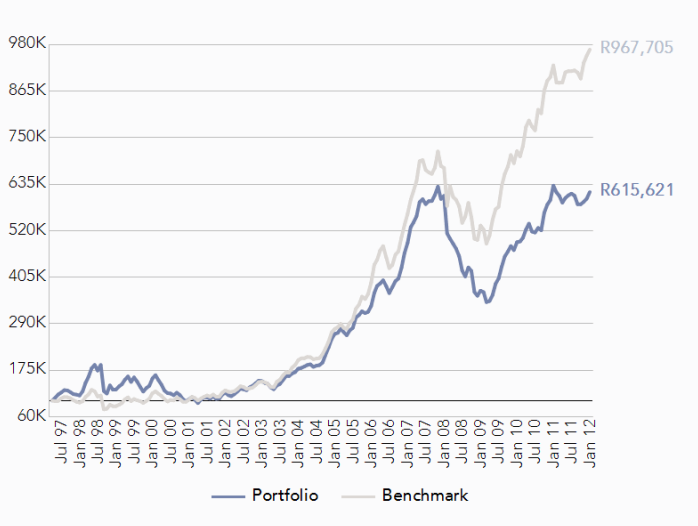
Fund category Domestic - Equity - Smaller Companies
Fund description Invests in small and mid-capitalisation companies, developing industries and recovery shares.
Launch date 01 April 1997
Portfolio manager/s Alistair Lea, Siphamandla Shozi

Fund size R195.36 million
NAV 4432.74 cents
Benchmark Composite: FTSE/JSE Africa Mid & Small Cap Indices
Risk profile

10/10
Aggressive

PERFORMANCE AND RISK STATISTICS¹

GROWTH OF A R100,000 INVESTMENT



PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2011	%
Domestic Assets	100.0%	
■ Equities	94.8%	
Basic Materials	13.8%	
Industrials	42.5%	
Consumer Goods	12.7%	
Consumer Services	10.1%	
Financials	14.1%	
Technology	1.5%	
■ Real Estate	1.9%	
■ Cash	3.3%	

PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Launch (unannualised)	515.6%	867.7%	(352.1)%
Since Launch (annualised)	13.1%	16.6%	(3.5)%
Latest 10 years (annualised)	17.8%	22.7%	(4.9)%
Latest 5 years (annualised)	4.7%	11.5%	(6.8)%
Latest 3 years (annualised)	18.3%	22.0%	(3.7)%
Latest 1 year (annualised)	(2.5)%	4.2%	(6.7)%
Year to date	(2.5)%	4.2%	(6.7)%
2010	28.4%	29.6%	(1.1)%
2009	32.2%	34.5%	(2.3)%
2008	(38.7)%	(21.1)%	(17.6)%

TOP 10 HOLDINGS

As at 31 Dec 2011	% of Fund
Advtech Ltd	5.4%
Omnia Holdings Ltd	5.2%
Zeder Investments Ltd	5.0%
MMI Holdings Ltd	3.7%
Metrofile Holdings Ltd	3.2%
Trencor Ltd	3.1%
Hudaco Industries Ltd	3.0%
Afrocentric Invest Corp	2.9%
RMI Holdings	2.8%
Bowler Metcalf Ltd	2.7%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	20.9%	18.5%
Sharpe Ratio	0.11	0.32
Maximum Gain	67.2%	62.6%
Maximum Drawdown	(50.2)%	(38.2)%
Positive Months	62.7%	61.6%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Sep 2011	03 Oct 2011	42.01	36.98	5.03
31 Mar 2011	01 Apr 2011	23.36	20.04	3.32
30 Sep 2010	01 Oct 2010	22.28	19.98	2.30
31 Mar 2010	01 Apr 2010	52.83	47.08	5.75

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2011	(2.7)%	(1.4)%	(2.8)%	2.0%	1.1%	0.7%	(0.8)%	(3.5)%	0.0%	1.1%	1.3%	2.8%	(2.5)%
Fund 2010	0.3%	1.8%	4.1%	2.8%	(3.7)%	(0.4)%	2.2%	(1.1)%	8.3%	3.6%	1.9%	6.1%	28.4%
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%

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 USP's as a payment for administrative and distribution services.	
Total Expense Ratio (TER) ²	1.07% 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 as calculated by Coronation as at 31 December 2011 for a lump sum investment using Class R 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 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.

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.