

## PORTFOLIO MANAGER COMMENTARY

The fund delivered a return of 3.8% for the quarter versus 3.7% delivered by the FTSE/JSE Industrial Index. While the fund continues to lag over 12 months, it has outperformed its benchmark by 3.7% p.a. over a rolling 3-year period (20.3% versus 16.6% p.a.). The compound annual figures since inception stood at 18.5% for the fund compared to 14.2% for the benchmark. The fund is one of the top performing funds in its sector over all meaningful periods.

News surrounding the global economy has been mostly negative over the past quarter. The US housing market remains weak with house prices continuing to decline, while consumer spending also remains sluggish with household budgets under even more pressure now that inflation has edged higher. The disappointing economic performance has raised the possibility of another round of quantitative easing aimed at stimulating growth – a scenario that was not even mooted a quarter or two ago.

Furthermore, the Eurozone continues to be plagued by sovereign debt concerns. At the time of writing, the Greek parliament voted in favour of a new austerity package. These measures would then enable Greece to receive their next €12 billion aid; of their first €110 billion bailout package. While a default may have been avoided for now, it is merely a stay of execution. To date, the market has done a fair job of pricing in a default by a small country like Greece, but not for a significant sovereign like Spain, Italy or worse. The implication of this is that global interest rates are likely to remain lower for longer, supporting the pricing of risk assets as capital continues to scour the globe in search of yield.

Economic data in South Africa remains mixed – CPI data for May came in ahead of consensus at 4.6%, while PPI came in slightly below expectations. We remain bearish on the inflation outlook and expect CPI to breach the upper end of the South African Reserve Bank's 3% to 6% target band either later this year or early in 2012. This view is framed by rising food prices (notwithstanding rand strength), high wage settlements and continued pressure on administered prices all against the backdrop of an accommodative monetary policy. We continue to believe the local currency is overvalued and have approximately 54% of the fund invested in rand hedges such as MTN, SABMiller, British American Tobacco, Naspers and Bidvest.

SABMiller is one of the biggest positions in the fund. The share price recently came under pressure when the proposed bid for Foster's in Australia was announced. Corporate transactions often capture the headlines and can result in volatile share price reaction as arbitrageurs take positions and incumbent investors struggle to digest the new information. Such events can of course present opportunities for those with a long-term inclination. In this case, consensus opinion quickly decided that the company was overpaying, resulting in a sell-off of the stock. We too did our calculations and consider it a fair risk that some value might be destroyed by the proposed transaction. Management clearly believe differently, and our work suggests a possibility that their positive scenario may unfold. This has left us with a situation where the share price discounted bad news as a certainty, while leaving some chance, even a reasonable one, that the transaction might actually create value. As a result, we added to our holding.

Within industrials, we believe it will be a challenge for the average domestic company to defend its real earnings, a task made more difficult when interest rates are hiked from their three-decade low levels. Consequently, we own very little retailers (other than Woolworths and Mr Price) and remain defensively positioned with holdings in Famous Brands, Spar Group, Pick n Pay Stores and AVI. As highlighted in previous commentary, we continue to find value in selected small caps with many trading at around 6 times our assessment of normal earnings. Approximately 48% of the fund is now invested in shares outside the ALSI40. The fund currently offers 43% upside to our assessment of fair value for the underlying counters.

In conclusion, investor behaviour is likely to oscillate between high and low levels of risk appetite depending on the economic data of the day. In an environment fraught with uncertainty, assets are often mispriced which benefits the valuation-driven, patient investor. We seek to capitalise on these opportunities by setting emotion aside and investing for the long-term.

**Portfolio managers**

Dirk Kotzé and Quinton Ivan

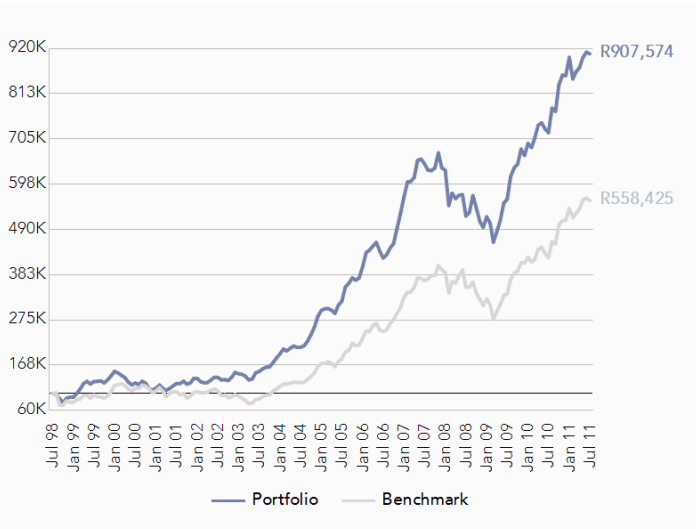
**Fund category** Domestic - Equity - Industrial  
**Fund description** Invests in a broad range of domestic industrial shares.  
**Launch date** 01 July 1998  
**Portfolio manager/s** Dirk Kotzé and Quinton Ivan

**Fund size** R195.90 million  
**NAV** 7041.10 cents  
**Benchmark** FTSE/JSE Industrial Index  
**Risk profile**

9/10  
Aggressive

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

### GROWTH OF A R100,000 INVESTMENT



## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Jun 2011	% of Fund
<b>Domestic Assets</b>	<b>93.3%</b>	
■ <b>Equities</b>	<b>90.5%</b>	
Basic Materials	10.3%	
Industrials	19.4%	
Consumer Goods	13.3%	
Health Care	6.5%	
Consumer Services	25.3%	
Telecommunications	13.1%	
Financials	2.6%	
■ <b>Cash</b>	<b>2.7%</b>	
<b>International Assets</b>	<b>6.7%</b>	
■ <b>Equities</b>	<b>6.7%</b>	

## PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Launch (unannualised)	807.6%	458.4%	349.1%
Since Launch (annualised)	18.5%	14.1%	4.3%
Latest 10 years (annualised)	22.1%	18.3%	3.8%
Latest 5 years (annualised)	16.6%	17.7%	(1.1)%
Latest 3 years (annualised)	20.3%	16.6%	3.7%
Latest 1 year (annualised)	26.0%	32.0%	(6.0)%
Year to date	1.0%	3.4%	(2.4)%
2010	29.5%	27.4%	2.1%
2009	33.5%	30.5%	3.0%
2008	(17.5)%	(16.1)%	(1.4)%

## TOP 10 HOLDINGS

As at 30 Jun 2011	% of Fund
MTN Group Ltd	13.1%
SABMiller Plc	9.3%
British American Tobacco Plc	6.7%
Famous Brands Ltd	5.1%
Naspers Ltd	4.6%
Bidvest Group Ltd	4.5%
Woolworths Holdings Ltd	4.2%
Mr Price Group Ltd	3.8%
Netcare Limited	3.1%
Trencor Ltd	3.0%

## RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	17.3%	20.3%
Sharpe Ratio	0.61	0.30
Maximum Gain	55.8%	61.7%
Maximum Drawdown	(31.6)%	(38.5)%
Positive Months	63.5%	65.4%

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31 Mar 2011	01 Apr 2011	60.06	58.25	1.81
30 Sep 2010	01 Oct 2010	64.80	63.37	1.43
31 Mar 2010	01 Apr 2010	34.28	26.94	7.34
30 Sep 2009	01 Oct 2009	57.76	38.64	19.12

## MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2011	(5.7)%	2.0%	1.2%	2.7%	1.4%	(0.4)%							1.0%
Fund 2010	(1.4)%	3.2%	4.4%	0.8%	(2.0)%	(1.2)%	8.1%	(1.0)%	8.2%	2.7%	(0.1)%	5.1%	29.5%
Fund 2009	(3.1)%	(8.8)%	5.5%	5.4%	8.1%	1.6%	9.8%	3.3%	1.3%	5.6%	(2.2)%	4.3%	33.5%

## 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.

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 30 June 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 March 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.

Total Expense Ratio (TER) <sup>2</sup>	1.22% per annum
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## 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.