

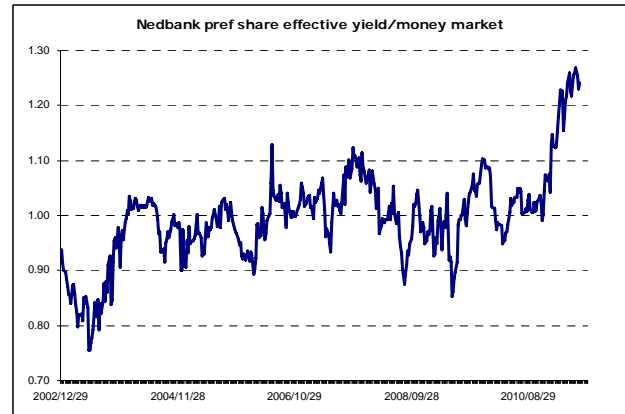
## PORTFOLIO MANAGER COMMENTARY

Preference shares experienced ongoing volatility in the past quarter but the fund ended the period with a positive 0.6% return. Weakness in the preference share market appears to be linked to ongoing uncertainty as to the tax treatment of non-redeemable (perpetual) preference share dividends once new tax legislation is implemented on 1 April 2012. We have, however had firm confirmation that the issuer will gross up the dividend by the tax amount, ensuring that the investor remains in the same position as before. With the announced closure of dividend income funds we expect that billions of rands will need to be redirected to new investment vehicles and the choice lies between investing in a risk-free money market funds at a much lower yield (of around 6%) or a slightly riskier non-redeemable preference share fund which will result in higher yields, but with the chance of some capital volatility.

We believe that the decision is a clear one. It is important to note that the percentage of prime prevailing on the date of purchase is the locked-in percentage of prime for the full duration of the investment. Currently, SA non-redeemable preference shares are priced at between 74% and 90% of prime, yields which are higher than that of the original issued percentage of prime (see table below). This higher yield is achieved as the entry price is now lower.

	original issue % of prime	current % of prime
<b>ABSA</b>	63%	77%
<b>Investec Bank</b>	75%	83%
<b>Firstrand</b>	68%	74%
<b>PSG</b>	75%	90%
<b>African Bank</b>	69%	86%

Given market weakness this year, and considering where money market yields currently are, we believe that preference shares are undervalued and due for a re-rating. Our view is backed by the chart which shows a long-term history of the effective yield on the Nedbank preference share relative to a money market investment. The chart strongly suggests that preference shares have been long ignored and present a buying opportunity.



Source: Coronation Fund Managers

The fund is fully invested in non-redeemable preference shares and is split 70:30 between bank and corporate preference shares, which we believe to be prudent given the credit differences between banks and non-banks as well as the liquidity which is poor in the corporate preference share sector. Issuance in the past year has escalated given the regulatory pressures that banks have faced with regards to improving their capital positions. Investec, for example, has been an ongoing issuer during 2010 and 2011 both for the local and offshore bank, raising around R850 million in additional capital via preference shares.

The fund is currently yielding 7.0% gross of fees, which translates into an equivalent pre-tax yield (assuming a 40% tax rate) of 11.7%. There are few non-equity investments which offer this type of yield these days, and we therefore view the outlook for preference shares as being positive.

**Portfolio managers**

Tania Miglietta and Godwill Chahwahwa

# CORONATION PREFERENCE SHARE

CLASS A as at 30 June 2011

**CORONATION**  
FUND MANAGERS

**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

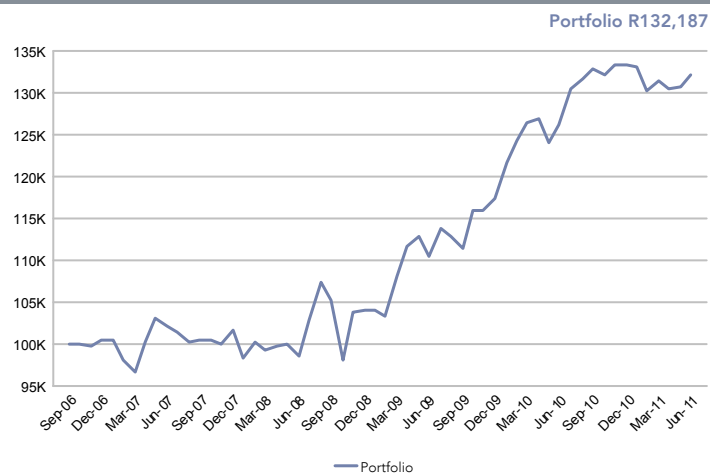
**Fund size** R321.62 million  
**NAV** 89.70 cents  
**Benchmark** Alexander Forbes 3-month (STeFI) Index, adjusted for maximum individual tax rate

**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)	32.2%	29.0%	3.2%
Since Launch (annualised)	6.1%	5.2%	0.9%
Latest 3 years (annualised)	10.3%	4.8%	5.5%
Latest 1 year (annualised)	4.7%	3.5%	1.1%
Year to date	(0.9)%	1.6%	(2.5)%
2010	13.6%	3.9%	9.7%
2009	12.9%	5.2%	7.7%
2008	2.3%	7.0%	(4.7)%

### RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	7.7%	0.6%
Sharpe Ratio	(0.34)	0.00
Maximum Gain	9.3%	48.3%
Maximum Drawdown	(8.6)%	0.00
Positive Months	54.4%	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%							(0.9)%
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 30 Jun 2011	Weight	Annualised Yield	Contributions to overall Yield
Bank issued preference shares	69.85%	6.79%	4.74%
Corporate issued preference shares	26.20%	7.98%	2.09%
Convertible preference shares	0.00%	0.00%	0.00%
Ordinary equity	0.00%	0.00%	0.00%
Cash (pre-tax)	3.91%	6.42%	0.25%
<b>Gross Yield</b>			<b>7.09%</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>6.10%</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 30 Jun 2011	Yield	Rating
Absa Preference Shares	6.87%	AA+
Firststrand Limited Pref Shares	6.66%	AA
Stdnd Bank Group Pref Shares	6.83%	AA
Investec Non Red Cum Pref	7.46%	A+
Investec Limited Preference Shs	7.46%	A+
Network Healthcare Pref	7.74%	A
Grindrod Limited Prefs	8.05%	BBB-
Psg Preference Share	8.11%	A-
Nedbank Non Cum Prefs	6.70%	AA-
Imperial Pref	7.71%	A

### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Jun 2011	01 Jul 2011	0.82	0.81	0.01
31 Mar 2011	01 Apr 2011	1.98	1.95	0.03
31 Dec 2010	03 Jan 2011	0.89	0.86	0.03
30 Sep 2010	01 Oct 2010	2.16	2.11	0.05

## FEES (excl. VAT)

<b>Initial Fee</b>	Coronation: 0.00%
<b>Annual Management Fee</b>	0.60%
<b>Total Expense Ratio (TER)<sup>2</sup></b>	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 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.