

## PORTFOLIO MANAGER COMMENTARY

The fund returned -3.2% for the 6 months to June, placing it fifth amongst its competitors. The fund is one of the top performing funds in the sector over three years, returning 13.2% p.a.

During the quarter, we reduced our holdings in Italtile and Ceramic Industries as both companies performed well and approached our assessment of fair value. We however added to our holdings in Advtech, Omnia Holdings and Zeder Investments. The period also saw the successful listing of Curro Holdings, a private education business, on the Alt-X board. Their listing was also followed by a rights issue in which we did not participate. Given our large holding in Advtech, it may come as a surprise that we do not hold any Curro share and as such, we explain our stance on this matter below. Curro is a small private school operator which currently owns and operates 12 private schools, with aspirations of expanding to 40 schools by 2020. The poor state of public schooling, coupled with relatively low penetration of private schools should support above average growth in the private education market for the foreseeable future. By running a tight ship, Curro has been able to increase affordability by charging lower tuition fees than traditional private schools. This allows them to target a broader market of prospective learners. At first glance, this cocktail of growth mixed together with the defensive and cash generative qualities of schools, seems very attractive. Naturally, we were very excited when we first heard that they were coming to the market.

The fact that Curro looks destined to grow earnings strongly over the next few years, tells only half of the story as to whether it will be a good investment. The other half is determined by the price an investor is asked to pay for those earnings. At the current price of 600c per share an investor will be paying a PE multiple of 50 times based on 2013 earnings. This means that even if their earnings triple over the next couple of years, you are still paying a PE multiple of 17 times for a new Alt-X listing which does not provide the investor with a sufficient margin of safety. We believe the current share price does not adequately discount the risks inherent in an aggressive rollout of schools.

A school rollout is fraught with logistical difficulties. Rezoning and securing properties could stifle any growth ambitions. Typically, a school takes 3 to 5 years before it operates profitably and involves a significant capital outlay. This fact, coupled with the market's demand for stable growth in earnings means that a measured approach to capacity rollout is probably best. The fact that Curro is taking the opposite approach should be properly discounted in the share price.

Advtech, on the other hand, has an established track record of profitable growth. Their management team, having learned from the past, takes a measured approach to growth. Capital has been deployed in an exemplary manner over time as reflected by the 10-year average return on equity (ROE) exceeding 20%. We have no reason to believe that things will be any different in the foreseeable future. The stock is currently priced at 9.5 times to our assessment of normal earnings. On a risk-adjusted basis we believe that at current prices Advtech offers a better opportunity than Curro.

The fund trades on a forward PE of 9.5 times, close to its average of the past six years. However, based on our assessment of normal earnings for each company in the fund, the forward PE is 7.6 times. This implies that we consider the level of earnings of the companies held by the fund to be on average 20% below normal. As such, we remain positive on the prospects for the fund in the medium to long term.

**Portfolio managers**

Alistair Lea and Siphamandla Shozi

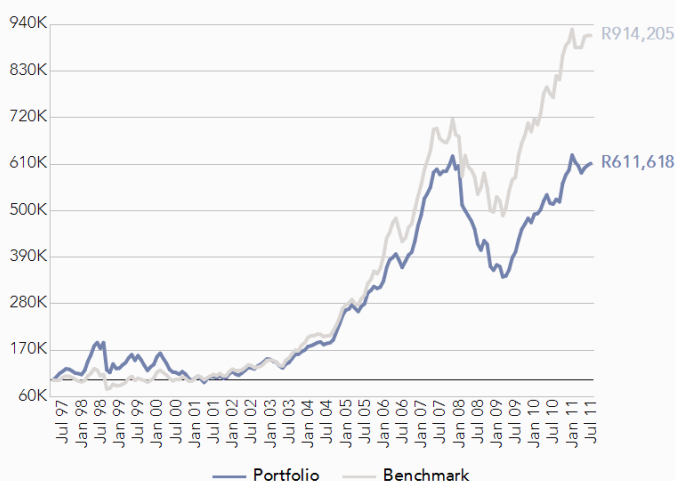
**Fund category** Domestic - Equity - Smaller Companies  
**Fund description** Invests in small and mid-capitalisation companies, developing industries and recovery shares.  
**Launch date** 01 April 1997  
**Portfolio manager/s** Alistair Lea, Siphamandla Shozi

**Fund size** R204.21 million  
**NAV** 4448.65 cents  
**Benchmark** Composite: FTSE/JSE Africa Mid & Small Cap Indices  
**Risk profile**

**10/10**  
Aggressive

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

### GROWTH OF A R100,000 INVESTMENT



## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Jun 2011	%
<b>Domestic Assets</b>	<b>97.2%</b>	
■ <b>Equities</b>	<b>93.4%</b>	
Basic Materials	11.0%	
Industrials	37.6%	
Consumer Goods	13.7%	
Health Care	0.4%	
Consumer Services	12.5%	
Financials	14.5%	
Technology	3.6%	
■ <b>Cash</b>	<b>3.8%</b>	
<b>International Assets</b>	<b>2.8%</b>	
■ <b>Equities</b>	<b>0.7%</b>	
■ <b>Real Estate</b>	<b>2.1%</b>	

## PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Launch (unannualised)	511.6%	814.2%	(302.6)%
Since Launch (annualised)	13.6%	16.8%	(3.2)%
Latest 10 years (annualised)	18.9%	23.3%	(4.3)%
Latest 5 years (annualised)	10.8%	16.4%	(5.6)%
Latest 3 years (annualised)	13.2%	19.2%	(6.0)%
Latest 1 year (annualised)	18.7%	19.1%	(0.4)%
Year to date	(3.2)%	(1.6)%	(1.6)%
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 30 Jun 2011	% of Fund
Zeder Investments Ltd	5.3%
Advtech Ltd	4.5%
Omnia Holdings Ltd	4.5%
MMI Holdings Ltd	3.7%
Business Connexion Group Ltd	3.2%
Bowler Metcalf Ltd	3.0%
Trencor Ltd	2.9%
O-Line Holdings Ltd	2.8%
RMI HOLDINGS	2.8%
Country Bird Holdings Limited	2.8%

## RISK STATISTICS SINCE INCEPTION

	Fund	Benchmark
Annualised Deviation	21.2%	18.8%
Sharpe Ratio	0.30	0.51
Maximum Gain	67.2%	62.6%
Maximum Drawdown	(50.2)%	(38.2)%
Positive Months	63.2%	61.4%

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
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
30 Sep 2009	01 Oct 2009	51.76	46.16	5.60

## 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%							(3.2)%
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) <sup>2</sup>	1.16% 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 R 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.

### 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.