

PORTFOLIO MANAGER COMMENTARY

Preference shares had a rocky ride this quarter after two years of strong performance during 2009 and 2010. The market did recover in March following a poor performance in January and February. The fund returned -1.47% for the quarter. The weakness came soon after the Budget announcement that on 1 April 2012, Secondary Tax on Companies (STC) will be switched to a withholding tax on dividends. Issuers, via a SENS announcement, have once again confirmed their intention to gross up the dividend by the same value of the tax saving they will put through. As such, preference shareholders will be left in a similar yield position to what they are in currently. Even though this news has been in the market for a few years, investors still appeared uncertain as to the exact outcome for dividend recipients which caused the selling pressure. The small transaction sizes would lead us to believe that private individuals were the most likely participants here, rather than the larger institutions. The improved yields resulting from the lower prices presented a good buying opportunity and Coronation came in as a buyer during this time. Further to this announcement was the confirmation that dividend income funds are to be wound down or investment proceeds taxed.

This announcement has no effect on the Coronation Preference Share Fund, which is fully invested in listed, perpetual preference shares only, as opposed to the structured alternative found in a dividend income fund. As a listed instrument, perpetual preference share prices do fluctuate. Historically we have seen how they respond to interest rate movements and the change in overall market yields, where prices tend to rise when interest rates decline and vice versa. Since the dividend is directly linked to prime, it stands to reason that the quantum of the dividend will fall or rise as prime rates are lowered or hiked.

Preference shares are income-generating assets rather than capital growth assets and are less risky than pure equity, but much riskier than a money market investment. Investors typically hold these instruments over the medium term, expecting that prices may fluctuate throughout the interest rate cycle. As interest rates are expected to start rising during the course of this year, preference shareholders will start to see an increasing dividend come through.

The percentage of prime currently available from preference shares is higher than on the day they were issued. For example, Absa preference shares were originally issued at R1 000 a share with a dividend of 63% of prime. They now trade at R850 a share, and are effectively available at a yield of 75.2% of prime. Similarly, the Netcare preference share issued at 75% of prime is now available at 83.3% of prime given its current price of R93.70 compared to the R100 it was on at the date of issue. By investing at prevailing prices, investors lock in a better percentage of prime for the full term of their investment. This market still offers a good after-tax yield, where clean yields are approximately 7.05%. By comparison, a yield of over 11.7% would need to be achieved in the money market to provide the same after-tax return. Most market participants are aware that not even the riskiest of corporate bonds are trading at these levels, concluding that a long-term investor does still have a good investment opportunity available in this market.

Portfolio managers

Tania Miglietta and Godwill Chahwahwa

CORONATION PREFERENCE SHARE

CLASS A as at 31 March 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

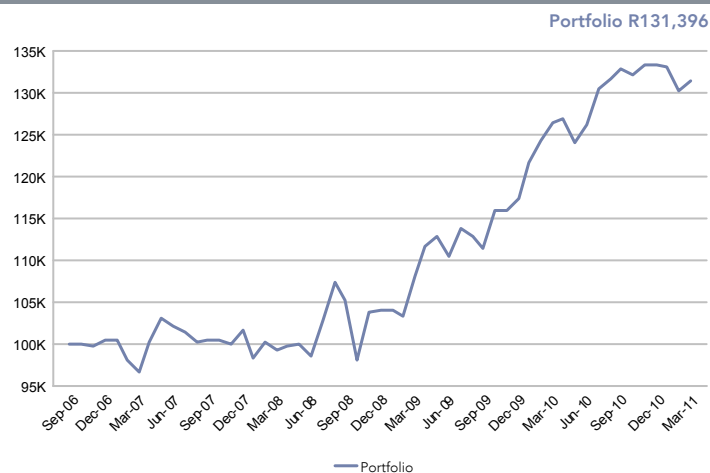
Fund size R324.11 million
NAV 91.13 cents
Benchmark Alexander Forbes 3-month (STeFI) Index, adjusted for maximum individual tax rate

Risk profile



PERFORMANCE AND RISK STATISTICS¹

GROWTH OF A R100,000 INVESTMENT



PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Inception (unannualised)	31.4%	27.8%	3.6%
Since Inception (annualised)	6.3%	5.3%	1.0%
Latest 3 years (annualised)	9.8%	5.1%	4.7%
Latest 1 year (annualised)	3.9%	3.7%	0.2%
Year to date	(1.5)%	0.8%	(2.3)%
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	7.9%	0.6%
Sharpe Ratio	(0.39)	(0.84)
Maximum Gain	9.3%	46.3%
Maximum Drawdown	(8.6)%	0.00
Positive Months	53.7%	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%										(1.5)%
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 Mar 2011	Weight	Annualised Yield	Contributions to overall Yield
Bank issued preference shares	73.24%	6.69%	4.90%
Corporate issued preference shares	24.79%	8.06%	2.00%
Convertible preference shares	0.00%	0.00%	0.00%
Ordinary equity	0.00%	0.00%	0.00%
Cash (pre-tax)	1.63%	6.34%	0.10%
Gross Yield			7.01%
Less: Total expense ratio ²			(0.70%)
Less: Trading costs ²			(0.28%)
Net expected effective yield			6.02%

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 Mar 2011	Yield	Rating
Absa Preference Shares	6.66%	AA+
Firststrand Limited Pref Shares	6.79%	AA
Investec Limited Preference Shs	7.12%	A+
Investec Non Red Cum Pref	7.18%	A+
Network Healthcare Pref	7.89%	A
Stndrd Bank Group Pref Shares	6.78%	AA
Nedbank Non Cum Prefs	6.73%	AA-
Psg Preference Share	8.16%	A-
Grindrod Limited Prefs	7.90%	BBB-
Imperial Pref	8.12%	A

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
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
30 Jun 2010	01 Jul 2010	1.21	1.17	0.04

FEES (excl. VAT)

Initial Fee	Coronation: 0.00%
Annual Management Fee	0.60%
Total Expense Ratio (TER)²	0.70% 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 March 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. 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 December 2010. 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.