

## PORTFOLIO MANAGER COMMENTARY

*'At the core of analytical edge is an ability to systematically distinguish between fundamentals and expectations. Fundamentals are a well thought out distribution of outcomes and expectations of what is priced into an asset. A powerful metaphor is the racetrack. The fundamentals are how fast a given horse will run and the expectations are the odds on the tote board. As any serious handicapper knows, you make money only by finding a mispricing between the performance of the horse and the odds. There are no good or bad horses, just correctly or incorrectly priced ones.'* **Michael Mauboussin, Legg Mason**

The fund returned 5.4% for the quarter against the benchmark return of 5.3%. For the year to March, the fund returned 21.8% against the benchmark's 16.7%.

The greatest contributors to quarterly performance were our overweight positions in Mondi, Gazprom and Sasol, as well as underweight positions in Impala Platinum and Evraz Highveld Steel and Vanadium. Our underweight position in Kumba Iron Ore and Harmony detracted from performance, as did our overweight position in Zimplats Holdings.

During the quarter, we took advantage of lower price levels to add to some of our existing holdings, primarily Anglo American, BHP Billiton, Implats and the Aluminium ETF. We have taken some profits in positions that have worked well for us, primarily Exxaro and Metorex. We had sold out of our position in Evraz early in the quarter as we believed that downside risks were not being appropriately priced by the market. The timing of our sale proved to be fortuitous and unit holders were not exposed to the 26% decline in the share price during March.

The past three months has been very interesting for global markets. We have experienced an earthquake and tsunami in Japan, continued political unrest in the Middle East and North Africa and Zimbabwean president, Robert Mugabe pushing ahead with the controversial Indigenisation and Economic Empowerment Act (The Act). The newsflow around Zimbabwe has been very negative for the share prices of Implats and Zimplats, both large holdings in the fund.

Zimplats is a world class asset and one of the lowest cost producers of platinum group metals (PGM) in the world. Its reserve base is unrivaled and it is very clear to us that had this asset been located in South Africa and not Zimbabwe, it would be trading at multiples of its current share price. The Act was originally gazetted on March 7, 2008 and signed into law on April 17, 2008. The Act provided for all companies operating in Zimbabwe to arrange for 51% of their shares or interests therein to be owned by indigenous Zimbabweans. Implats (which owns 87% of Zimplats) has made numerous concessions to government over the past few years, including the surrendering of land and investment in social development projects, in return for empowerment credits. The agreement was that these credits could be offset against the 51% requirement. The concessions and a potential equity empowerment deal have already been factored into our valuation. So what has changed over the last few weeks?

More recently new details specific to the mining sector were published, largely confirming the principles of the Act. Firstly, the timing for implementation has been significantly reduced. Secondly, no mention has been made of government honouring existing agreements made with companies to use empowerment credits to offset against the 51% requirement. Lastly, the value of shares to be disposed will be calculated based on a valuation agreed between government and the company, which potentially could be very subjective. This news

was not favourably received by the market. Market participants feared that government would not honour existing agreements and that companies could potentially lose 51% of their assets for zero value or even speculated that they might lose 100% for zero value. Although one cannot dismiss these as possible scenarios, we would argue that based on a balance of probabilities, the odds are in favour of those investors who are prepared to take a longer-term view.

It is important to separate fundamentals from expectations. Zimplats has consistently been delivering excellent operational results in a very difficult operating environment. Even if we do not see a normalisation of the environment in Zimbabwe, and government just honour existing agreements with Zimplats and Impala, it is clear that based on the fundamentals of the asset, Zimplats will be the fastest horse in the race. It would be reasonable to expect the handicappers to reduce the odds of winning because of the increased political risk. At current prices we believe that the handicappers have reduced the odds too much, presenting an opportunity for long-term investors. Zimplats' share price has fallen to AUD 8.95 on the recent indigenisation news, implying a historic PE of c5.3 times, which represents a c82% discount to the c30 times historic PE the South African platinum sector is currently trading at. Zimplats is still currently ramping up production and the current annualised production of 361 466 4PGM ounces is still well below the medium term production target of 1 million 4PGM ounces. In our view the current earnings are well below normalised levels, so we are presented with a very low PE on very low earnings. We conservatively value Zimplats using a normalised production level of 800 000 4PGM ounces, so c20% below medium term targets and well below management's long-term stretch targets of 2 million 4PGM ounces. On a normalised basis we see significant value in this share and would argue that at the current share price the odds of the potential political outcome have been incorrectly priced.

Implats is exposed to Zimbabwe through its 87% holding of Zimplats and 50% holding of Mimosa in a joint venture with Aquarius Platinum. In our view, at current prices the market is ascribing zero value to Impala's Zimbabwe exposure, which implies that handicappers are expecting that 100% of its Zimbabwe assets as expropriated for zero value. Although this scenario is possible, we would argue that it is highly improbable. We view Implats as a low-risk exposure to the potential upside from a normalisation in Zimbabwe and we have used the current share price weakness to increase our holding.

Globally we continue to face great uncertainty. Based on our assessment of long-term valuations we are excited about the position of the fund and specific opportunities that have presented themselves within the resources sector. When building your portfolio, we strive to ignore the constant noise in the market and identify undervalued and mispriced companies based on long-term valuations. History has taught us that our ability to forecast the immediate future is limited. However, despite short-term market uncertainty, we will continue to strive to deliver superior returns relative to the benchmark over the long term.

**Portfolio managers**

Henk Groenewald and Duane Cable

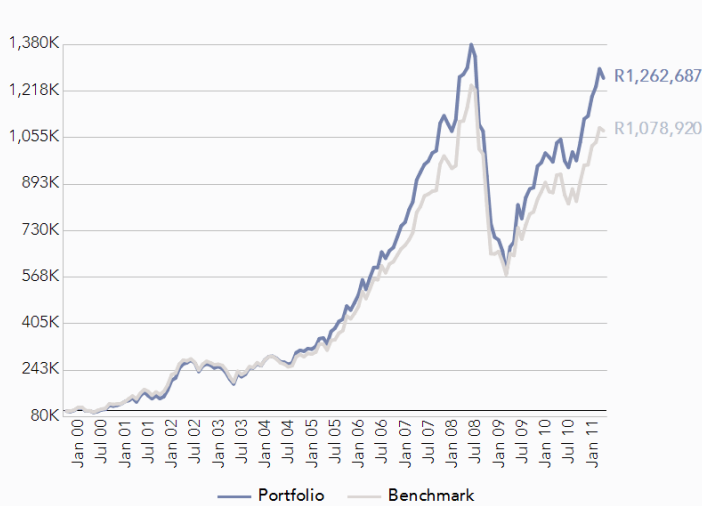
**Fund category** Domestic - Equity - Resources & Basic Industries  
**Fund description** Invests in a broad range of resource and basic industry counters that are affected by changes in the commodity cycle.  
**Launch date** 01 October 1999  
**Portfolio manager/s** Henk Groenewald and Duane Cable

**Fund size** R315.52 million  
**NAV** 9744.48 cents  
**Benchmark** Resources & Basic Industries Sector Mean

**Risk profile**  10/10 Aggressive

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

### GROWTH OF A R100,000 INVESTMENT



### PERFORMANCE FOR VARIOUS PERIODS

|                                | Fund    | Benchmark | Outperformance |
|--------------------------------|---------|-----------|----------------|
| Since Inception (unannualised) | 1162.7% | 978.9%    | 183.8%         |
| Since Inception (annualised)   | 24.7%   | 23.0%     | 1.7%           |
| Latest 10 years (annualised)   | 25.4%   | 22.5%     | 2.9%           |
| Latest 5 years (annualised)    | 17.4%   | 15.4%     | 2.0%           |
| Latest 3 years (annualised)    | (0.4)%  | (1.0)%    | 0.7%           |
| Latest 1 year (annualised)     | 21.8%   | 16.7%     | 5.1%           |
| Year to date                   | 5.4%    | 5.2%      | 0.2%           |
| 2010                           | 19.7%   | 14.2%     | 5.5%           |
| 2009                           | 43.5%   | 36.7%     | 6.8%           |
| 2008                           | (35.2)% | (30.6)%   | (4.6)%         |

### RISK STATISTICS SINCE INCEPTION

|                      | Fund    | Benchmark |
|----------------------|---------|-----------|
| Annualised Deviation | 23.8%   | 23.3%     |
| Sharpe Ratio         | 0.63    | 0.57      |
| Maximum Gain         | 93.4%   | 75.6%     |
| Maximum Drawdown     | (57.9)% | (53.4)%   |
| Positive Months      | 64.5%   | 63.0%     |

### MONTHLY PERFORMANCE RETURNS

|           | Jan    | Feb     | Mar    | Apr  | May    | Jun    | Jul  | Aug    | Sep  | Oct  | Nov  | Dec  | YTD   |
|-----------|--------|---------|--------|------|--------|--------|------|--------|------|------|------|------|-------|
| Fund 2011 | 2.9%   | 5.0%    | (2.5)% |      |        |        |      |        |      |      |      |      | 5.4%  |
| Fund 2010 | (1.4)% | (1.7)%  | 6.9%   | 1.1% | (7.1)% | (2.4)% | 5.7% | (3.0)% | 6.5% | 7.9% | 0.9% | 6.0% | 19.7% |
| Fund 2009 | (5.6)% | (11.8)% | 16.0%  | 2.5% | 18.7%  | (5.9)% | 9.5% | 3.6%   | 0.5% | 8.6% | 1.3% | 3.5% | 43.5% |

### FEES (excl. VAT)

|  |                   |
|--|-------------------|
| <b>Initial Fee</b>   | Coronation: 0.00% |
| <b>Annual Management Fee*</b>  | 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. |                   |
| <b>Total Expense Ratio (TER)<sup>2</sup></b>   | 1.20% per annum   |

## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

| Sector                      | 31 Mar 2011  | % |
|-----------------------------|--------------|---|
| <b>Domestic Assets</b>      | <b>73.7%</b> |   |
| ■ <b>Equities</b>           | <b>68.7%</b> |   |
| Oil & Gas                   | 13.2%        |   |
| Basic Materials             | 53.9%        |   |
| Industrials                 | 0.6%         |   |
| Consumer Goods              | 1.0%         |   |
| ■ <b>Cash</b>               | <b>5.0%</b>  |   |
| <b>International Assets</b> | <b>26.3%</b> |   |
| ■ <b>Equities</b>           | <b>24.6%</b> |   |
| ■ <b>Cash</b>               | <b>1.7%</b>  |   |

### TOP 10 HOLDINGS

| As at 31 Mar 2011            | % of Fund |
|------------------------------|-----------|
| Anglo American Plc           | 15.9%     |
| Sasol Ltd                    | 13.2%     |
| BHP Billiton Plc             | 11.8%     |
| Impala Platinum Holdings Ltd | 5.9%      |
| Mondi Plc                    | 5.1%      |
| Pan African Resources PLC    | 4.8%      |
| OAO Gazprom Reg              | 4.2%      |
| Zimplats Holdings Ltd        | 3.9%      |
| Petroleo Brasileiro SA       | 3.8%      |
| Northam Platinum Limited     | 2.5%      |

### INCOME DISTRIBUTIONS

| Declaration | Payment     | Amount | Dividend | Interest |
|-------------|-------------|--------|----------|----------|
| 31 Mar 2011 | 01 Apr 2011 | 42.66  | 37.95    | 4.71     |
| 30 Sep 2010 | 01 Oct 2010 | 25.05  | 24.43    | 0.62     |
| 30 Sep 2009 | 01 Oct 2009 | 10.53  | 8.16     | 2.37     |
| 31 Mar 2009 | 01 Apr 2009 | 23.74  | 22.09    | 1.65     |

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 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. <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 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.

### 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.