

PORTFOLIO MANAGER COMMENTARY

For the year ended September, the fund return of 7.2% lagged the 7.8% of the FTSE/JSE Industrial Index, while over three years the fund was ahead of the index, at 18.2% versus 16.9%. Based on the strength of the sector relative to other asset classes, the fund was among the top performers of all equity unit trusts over this period.

Financial markets are again going through a period of intense uncertainty. Investors battle to make sense of the European debt and currency crisis, the threat of recession looming in the US and other developed economies, as well as the spectre that under various (entirely possible) scenarios, some assets, asset classes and currencies could suffer large losses. Post the bursting of the internet bubble in 2000, the world has lurched from one crisis to another, but equities have always bounced back. This may lead to a sense that this crisis too, may be just another one of those minor inconveniences. The reality is that the disturbances of the last decade have been merely the opening fissures in a dyke behind which a muddy slimes dam of excessive debt has been accumulating for decades. Strong action can still avert the threat in an orderly way, but this will require a level of fortitude from global politicians which they have not yet found within themselves. While they stick fingers in the cracks, the world holds its breath.

The mandate of an equity sector fund like this one implies full investment at all times. Hence despite the vagaries of the macro environment we concentrate on picking stocks from the investable universe that offer the best margin of safety relative to our valuation, and construct the portfolio weightings in order to offset different risk scenarios. Despite the uncertain environment outlined above, industrial shares have been the best performing of the SA equity market segments for the year to date. This is understandable when one looks at the stocks that make up the major index weightings. The defensiveness and global diversity of stocks like MTN, SABMiller and Naspers have often been extolled in this report. In uncertain times like these, such consistence is highly prized and achieves a premium rating.

Whatever differences of opinion there may be on the path of world economies and markets from here, it is fairly clear that the world and South Africa will grow more slowly. Returns from all asset classes will be muted, probably for years to come, and in general it will be tougher to do business and capture earnings growth than in the past. These views continue to support the defensive stance outlined in previous reports, and our preference for quality businesses with a strong franchise value. In a tough macro environment, weak businesses will continue to struggle, and hence an extraordinary margin of safety is required to entice our interest.

MTN, SABMiller, British American Tobacco and Naspers accordingly remain the biggest exposures of the fund. These companies have the ability to grow earnings strongly, even through tough times. During the last two quarters the position in Aspen was increased. Recent results were good. We consider the share, at around 11 times our assessment of normal earnings, an excellent proposition.

Bidvest has long been one of the bigger holdings in the fund. This position saw some excitement when various unsolicited offers were received by the company for its international food service business. The market was disappointed when the board of the company elected not to pursue the offers; more so when afterwards it was revealed that they had been of the order of R30 billion cash, equating to some 60% of the market capitalisation. In the aftermath, the share price retreated to much the same level as before the transaction. We were disappointed, too. Industry interest does confirm the value of these assets however, and our interest in holding them at a cheap rating is undiminished. Company management have various strategic options available at any time, and in this case argue that equal or bigger value to shareholders will eventuate from following a different route. We shall monitor with interest.

Woolworths is an equally long-held position of the fund. Despite our general reticence to have too much exposure to retailers, we have been loath to trim this position in view of the internal dynamic in the company. Woolies has among the highest franchise value of any business in SA and is perfectly positioned in terms of aspirational appeal to emerging consumers. A victim of its own success, the cost base had become bloated over the years. New management signalled an intention to drive efficiencies and the first apparent delivery on this strategy is behind much of the 42% return that the share has delivered in the year to date. Our experience with similar situations in the past suggests that there may be much more to come, thus we continue to hold the position.

A comment this quarter would not be complete without reference to the depreciation in the rand, which seemed to pass a turning point after many months of being overvalued in our view. The timing of such turning points is impossible to forecast. The fund had been positioned for this long before, with about two thirds of the portfolio offering some degree of hedge to a depreciating rand. We continued to add to these exposures, particularly through making use of the attractive opportunities in the industrial materials sector. By the time of the rand decline, some 12.5% of the fund was held in names like Mondi, AECI, Omnia, Hulam and Arcelor Mittal.

A weaker local currency will bring some relief to the beleaguered local manufacturing sector, where our exposures remain small and targeted. Construction and capital goods sectors also remain depressed, and we are steadily building positions into an anticipated upswing. The industrial sector has held up quite well, but we consider that there are still many instances of long-term value on offer. Hence we remain confident in the likelihood of modestly positive returns going forward.

The end of this quarter brings to an end Quinton Ivan's involvement in the management of the fund. He will concentrate on other assignments and will be sorely missed. Sarah-Jane Alexander joins as co-manager; her strong views are bound to make a big contribution to the internal debate.

Portfolio managers

Dirk Kotzé and Quinton Ivan

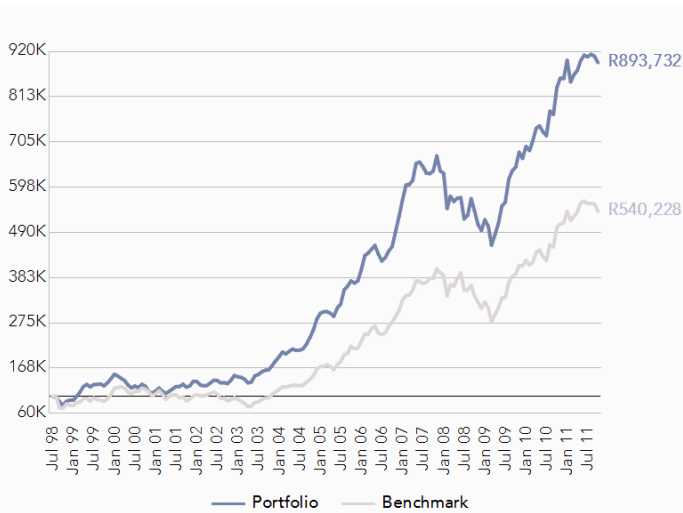
Fund category Domestic - Equity - Industrial
Fund description Invests in a broad range of domestic industrial shares.
Launch date 01 July 1998
Portfolio manager/s Dirk Kotzé and Quinton Ivan

Fund size R205.57 million
NAV 6934.15 cents
Benchmark FTSE/JSE Industrial Index
Risk profile



PERFORMANCE AND RISK STATISTICS¹

GROWTH OF A R100,000 INVESTMENT



PORTFOLIO DETAIL

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2011
Domestic Assets	94.6%
■ Equities	92.4%
Basic Materials	11.9%
Industrials	21.3%
Consumer Goods	11.9%
Health Care	7.8%
Consumer Services	23.9%
Telecommunications	12.0%
Financials	3.6%
■ Cash	2.2%
International Assets	5.4%
■ Equities	5.4%

PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Launch (unannualised)	793.7%	440.2%	353.5%
Since Launch (annualised)	18.0%	13.6%	4.4%
Latest 10 years (annualised)	22.0%	19.8%	2.2%
Latest 5 years (annualised)	14.4%	14.3%	0.0%
Latest 3 years (annualised)	18.2%	16.8%	1.3%
Latest 1 year (annualised)	7.2%	7.8%	(0.6)%
Year to date	(0.6)%	0.0%	(0.6)%
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 Sep 2011	% of Fund
MTN Group Ltd	12.0%
SABMiller Plc	8.3%
British American Tobacco Plc	5.4%
Naspers Ltd	4.8%
Famous Brands Ltd	4.6%
Woolworths Holdings Ltd	4.4%
Bidvest Group Ltd	4.3%
Aspen Pharmcare Holdings Ltd	3.3%
Advtech Ltd	2.9%
Netcare Limited	2.9%

RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	17.1%	20.2%
Sharpe Ratio	0.44	0.16
Maximum Gain	55.8%	61.7%
Maximum Drawdown	(31.6)%	(38.5)%
Positive Months	62.9%	64.8%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Sep 2011	03 Oct 2011	76.31	73.98	2.33
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

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)%	0.6%	(0.5)%	(1.6)%				(0.6)%
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). ¹Performance as calculated by Coronation as at 30 September 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 June 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)² 1.20% per annum

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.