

## PORTFOLIO MANAGER COMMENTARY

The last quarter has indeed been a difficult one for the fund, adversely impacting both quarterly and rolling twelve-month performance. The fund returned -10.9% for the quarter against the benchmark\* of -10.0%. For the year to September, the fund returned 3.4% against the benchmark return of 1.6%. Those who have followed the fund for some time are aware of the fact that we encourage investors to evaluate us over the long term, whether short-term performance is good or bad. We remain ahead of the benchmark over three, five and 10 years.

The greatest detractor from quarterly performance was our underweight position in gold equities. The gold weighting in the Resources Index is approximately 17.3% compared to 5.4% in the fund. Our overweight positions in Northam, Sappi, Pallinghurst Resources and ArcelorMittal also detracted from performance. Our underweight position in Anglo American and BHP Billiton contributed to performance, as did our overweight positions in Optimum Coal and Tongaat. Our offshore equity holdings detracted from performance despite the weakening rand, although this was partially offset by favourable contributions from our offshore commodity holdings.

During the quarter we took advantage of lower price levels to add to some of our existing holdings which have been indiscriminately sold-off. We also took profits in positions that have worked well for us.

The events that unfolded during the third quarter of 2011, like in 2008, threatened to destabilise financial markets around the world. Ongoing uncertainty about the sovereign debt crisis in Europe was overshadowed during August by the bipartisan stand-off in the US regarding the lifting of the country's debt ceiling, culminating in the downgrading of US government debt to AA. In the meantime, anaemic economic growth and increasingly worrying numbers out of China scared the few remaining bulls out of equity markets by the end of the quarter. Whilst the US debt downgrade may have been the final trigger for the August equity sell-off, the solvency of the US government does not appear to be the primary concern of markets, as evidenced by the sharp fall in US Treasury yields following the rating change. Currencies became victims of large capital flows, and units like the South African rand and Brazilian real respectively lost 20% and 16% of their value against the US dollar over the quarter. Commodities also fell foul of this aggressive move to reduce risk in all portfolios, with copper down over 23%, platinum down nearly 12% and oil down over 5%. Predictably the gold price rose by more than 8% over the quarter.

The fear expressed by global investors, retail and institutional alike, was almost tangible, leading to the VIX Index (a measure of market expectations of near-term volatility as expressed by S&P stock index option prices) surpassing levels achieved after the collapse of Lehman Brothers in 2008. In fact, the index was at 48.0 after the debt downgrade, compared to 31.7 after Lehman's. The index ended the quarter at 37.7, highlighting the fear that the situation in 2011 will worsen way beyond what was experienced in 2008. Whilst it is understandable that investors are fleeing risky assets during times like these, we disagree with the view that the current scenario is comparable to that of 2008. Corporate balance sheets and levels of profitability are significantly stronger than then, mainly as a result of decisive actions taken by strong management teams at the time of the 2008 crisis. Considerable deleveraging has already taken place in the financial sector, and recapitalisations have strengthened some players' balance sheets. More will be required as events unfold. In addition authorities are standing by to provide help in every conceivable way to reduce risk in the financial system. This does not mean that we can avoid the inevitable hangover in the form of significantly lower economic growth after the credit binge of the noughties, it just means, in our opinion, that perspective should be maintained to spot the opportunities during this indiscriminate sell-off of perceived risky assets.

The 'fear trade' or 'risk-off' environment resulted in a rising gold price and weakening rand. Gold equities were the clear beneficiary in this environment, with the FTSE/JSE Gold Index increasing by 19.5% during the quarter. Based on current spot gold prices we understand why the market has become excited about the near-term earnings prospects for gold equities. In our opinion, we don't believe current gold prices are sustainable neither do equity valuations for the gold majors present any margin of safety. Based on our assessment of normalised gold prices and exchange rates we believe the gold majors are trading at approximately 20x our assessment of normalised earnings, which we do not find attractive for businesses with such poor longer-term fundamentals and historical track record of shareholder wealth destruction. We do however have some gold exposure in the fund through our position in Pan African Resources, a small cap gold company.

Pan African trades at 9x our assessment of normalised earnings compared to 20x for the gold majors on the same normalised gold price and currency assumptions. Pan African also trades on a dividend yield of 6%, whereas gold majors are generally trading at dividend yields below 2%. Our negative view on gold is very different to many of our competitors and market participants. Some of the reasons we remain cautious despite favourable near-term prospects include:

- The current gold bull market is already more than a decade old with prices almost 8x higher than levels achieved in 2000 and almost 3x above the real historical average (1973-2011) of gold.
- We have no competitive advantage in forecasting the near-term gold price or exchange rate. Although we agree with many of the bullish arguments for gold, we believe these have to a large extent already been reflected in the spot price of gold. Many of my friends and family have in the last year either spoken to me about the gold price or told me about why gold is such a good investment. I always enjoy discussing the markets, however am concerned when people I know very well and who generally have no interest in or knowledge of financial markets can eloquently articulate the investment case for gold. Almost daily the media has some piece on gold and many people believe gold has become a one-way bet in the current environment. I have noticed many similarities to the discussions I heard in early 2008 on reasons why commodity prices could only go higher.
- Gold equities have historically been very poor investments and have generally failed to deliver a return on capital above the weighted average cost of capital. Some of the reasons for poor historic returns include poor capital allocation decisions and failing to benefit from the rising gold price due to declining grades, increasing costs and capital expenditure. The historical free cash flow conversion for the gold sector has been almost non-existent, which highlights the poor quality of historic accounting earnings.
- Some argue that gold equities have underperformed the gold price, therefore present a margin of safety. We do not believe that underperformance alone warrants an investment case. We are less fixated about price and more concerned about the value of the business, which is based on the present value of future cash flows. Longer term we are concerned that the prospects for future cash flows might not be as attractive as implied by current spot gold prices.
- Near-term ratings look very low compared to history, which might be attractive to some investors. We are however concerned about the sustainability of earnings implied by spot prices. We also believe historical ratings for gold stocks were clearly not reflective of business fundamentals and we could never justify why the market was prepared to value them at 20-30x earnings or 2-3x price-to-NAV. The closest comparison I can think of for illustrative purposes is the 2000 technology boom. Technology shares were trading at 100x earnings multiples, which with hindsight was clearly folly. As the bubble started bursting and they fell to 50x earnings they were no more expensive than they were at 100x earnings. Current best-in class technology shares in the US trade at 5-10x earnings, which illustrates the danger of relying on historical ratings. When valuing businesses we apply ratings to our assessment of normalised earnings based on the fundamentals of the business and assessment of quality of the business relative to other businesses in the market.

Globally we continue to face great uncertainty. You have entrusted us with your capital, which is a responsibility we do not take lightly. 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

\*The Association for Savings and Investment SA (Asisa) recently made changes to the Resources & Basic Industries sector classification rules. This sector now includes more specialised gold and precious metals funds, making a direct comparison to the peer group less meaningful for our fund. As such, we have decided to restate the fund's benchmark performance from sector mean to that of the FTSE/JSE Resources Index, effective September 2011. This approach is in line with our other sector funds such as the Financial and Industrial funds.

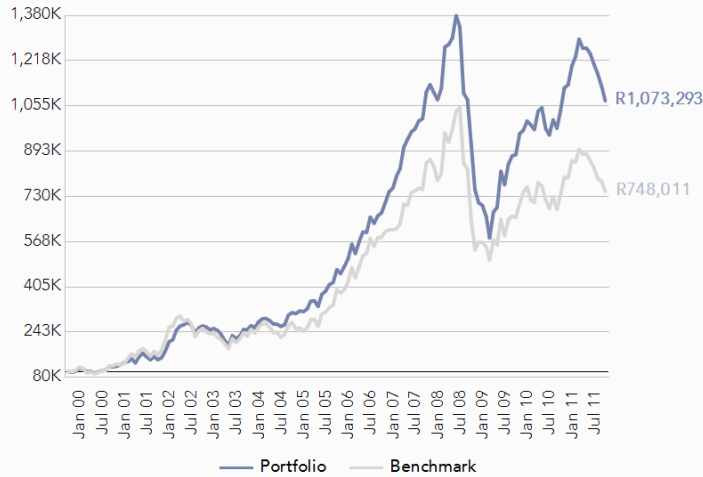
**Fund category** Domestic - Equity - Resources & Basic Industries  
**Fund description** Invests in a broad range of resource and basic industry counters that are affected by changes in the commodity cycle.  
**Launch date** 01 October 1999  
**Portfolio manager/s** Henk Groenewald and Duane Cable

**Fund size** R221.09 million  
**NAV** 8247.13 cents  
**Benchmark** FTSE/JSE Africa Resources Index (TR)†  
**Risk profile**



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

### GROWTH OF A R100,000 INVESTMENT



## PORTFOLIO DETAIL

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2011
<b>Domestic Assets</b>	<b>71.7%</b>
■ <b>Equities</b>	<b>71.2%</b>
Oil & Gas	12.2%
Basic Materials	57.1%
Industrials	0.7%
Consumer Goods	1.2%
■ <b>Cash</b>	<b>0.5%</b>
<b>International Assets</b>	<b>28.3%</b>
■ <b>Equities</b>	<b>28.3%</b>
■ <b>Cash</b>	<b>0.0%</b>

## PERFORMANCE FOR VARIOUS PERIODS

	Fund	Benchmark	Outperformance
Since Launch (unannualised)	973.3%	648.0%	325.3%
Since Launch (annualised)	21.9%	18.3%	3.6%
Latest 10 years (annualised)	22.3%	16.6%	5.6%
Latest 5 years (annualised)	9.8%	5.1%	4.7%
Latest 3 years (annualised)	5.3%	4.9%	0.3%
Latest 1 year (annualised)	3.4%	1.6%	1.8%
Year to date	(10.4)%	(12.8)%	2.4%
2010	19.7%	12.3%	7.5%
2009	43.5%	35.4%	8.1%
2008	(35.2)%	(28.3)%	(6.9)%

## TOP 10 HOLDINGS

As at 30 Sep 2011	% of Fund
Anglo American Plc	15.9%
Sasol Ltd	12.2%
BHP Billiton Plc	12.2%
Mondi Plc	5.8%
Impala Platinum Holdings Ltd	5.6%
Pan African Resources PLC	5.4%
Zimplats Holdings Ltd	4.7%
OAO Gazprom Reg	4.0%
Petroleo Brasileiro SA	3.5%
Northam Platinum Limited	3.4%

## RISK STATISTICS SINCE LAUNCH

	Fund	Benchmark
Annualised Deviation	23.6%	27.6%
Sharpe Ratio	0.52	0.31
Maximum Gain	93.4%	86.3%
Maximum Drawdown	(57.9)%	(52.3)%
Positive Months	61.8%	59.0%

## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30 Sep 2011	03 Oct 2011	60.32	58.53	1.79
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

## MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
Fund 2011	2.9%	5.0%	(2.5)%	0.0%	(1.6)%	(3.0)%	(2.9)%	(3.7)%	(4.7)%				(10.4)%
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)

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). <sup>1</sup>Performance 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. <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 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) <sup>2</sup>	1.19% per annum
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## 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.

†Please note that the benchmark has been changed from the Resources & Basic Industries Sector Mean to the above, effective September 2011.