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The Coronation Fund Managers Quarterly

The Balanced Fund is back



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April 2009

CORONATION 
FUND MANAGERS

The Balanced Fund is back

It seems that when all the dust has settled, the next recovery will be marked by a flight to quality and simplicity of product

by KIRSHNI TOTARAM

We have just been through a period of unprecedented excess – excess greed, excess risk, excess consumption, excess credit, excess optimism. Add multiple layers of complexity and elaborate Greek terms and it's no wonder that the current financial crisis has left many shocked and dismayed.

Within the last 10 years the equity market crashes in 1998 and 2000-2003 were defining moments. People discovered that relative returns could not buy groceries and neither could the hype around risk premia and benchmark hugging. So investors switched strategies to seek out higher nominal returns. The various elements of portfolio management were sliced and diced to form clever mandate definitions and exposures to alternatives. The management of the portfolio risk was left to boards of trustees, their consultants or multi-managers. In that brave new world investors relied heavily on the use of leverage, shorting and derivatives with minted 'go anywhere' type strategies. Benign credit conditions and market recoveries bailed these strategies out for an extended period of time. It is only now, when the entire system has been stripped bare that the tough questions are once again being asked: Who is responsible for the different elements of the portfolio strategy, are they qualified for the task, and how have they fared?

Increasingly there is now the realisation that the professional money manager is best placed to make many of the decisions concerning capital markets. The 'boring' balanced fund is back in vogue as skilled money managers show significant levels of outperformance over many client solutions.

Over the years there have been many studies on dissecting portfolio returns and their sources. All have different findings on the exact quantity that each element represents of the total portfolio return. But all agree on one point – asset allocation



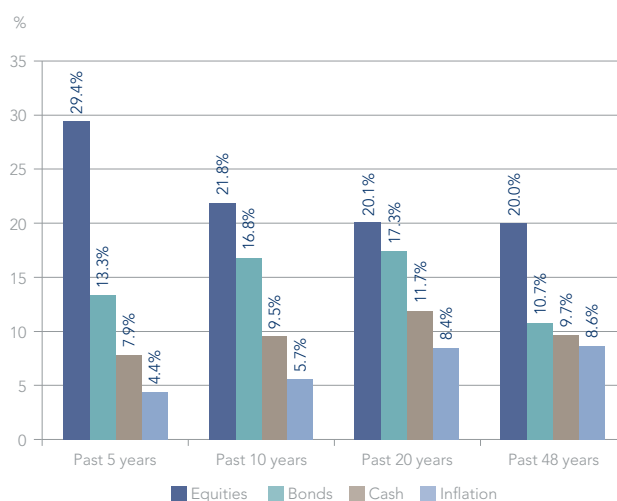
KIRSHNI TOTARAM heads up the institutional business and is a member of the executive committee. She is a qualified actuary and a former manager of the Coronation Property Equity Fund.

determines the greatest part of the portfolio's return. David Swenson, CIO of Yale University, has stated that 'investment returns stem from decisions regarding three tools of portfolio management: asset allocation, market timing and security selection, with investor behaviour determining the relative importance of each'.

We agree with the academics – asset allocation and diversification are the biggest drivers of portfolio performance in both the long and the short term.

As can be seen from the graph below, over the long term, equities tend to outperform all other asset classes.

ASSET TOTAL RETURNS (1960–2007)



However, the long term can sometimes be very long and well beyond the investment horizon of many investors.

In the shorter term diversification alone is not enough – entry and exit prices matter and hugely influence the return an investor can achieve. In addition, we have found that the 'price of risk'



changes over time. At certain times in a market cycle one can be heavily rewarded for taking on risky assets within the portfolio (i.e. risk is relatively cheap). At other times the additional return an investor can earn by adding risky assets is marginal, and may not be enough to adequately compensate the investor (i.e. risk is relatively expensive).

Hence there is an ability to add value to a portfolio both in terms of return enhancement and risk management by understanding the different sources of return and having the ability to make use of those opportunities as they present themselves.

Why the balanced fund?

Balanced funds are traditional investment portfolios that make use of the full spectrum of asset classes available. These include 'in the gap' asset classes like preference shares, listed property and inflation-linked bonds. They also include alternatives like hedge funds. A major shortcoming of a pure specialist mandate approach in South Africa in recent years has been the inability to participate in asset classes or securities that were emerging, and fell between the traditional definitions of existing asset classes. For example, preference shares may not be attractive enough for a specialist equity mandate and may be considered too risky (or non-allowable) within a fixed income mandate. This has cost many funds the ability to benefit from the strong market returns produced by this asset class in relation to cash.

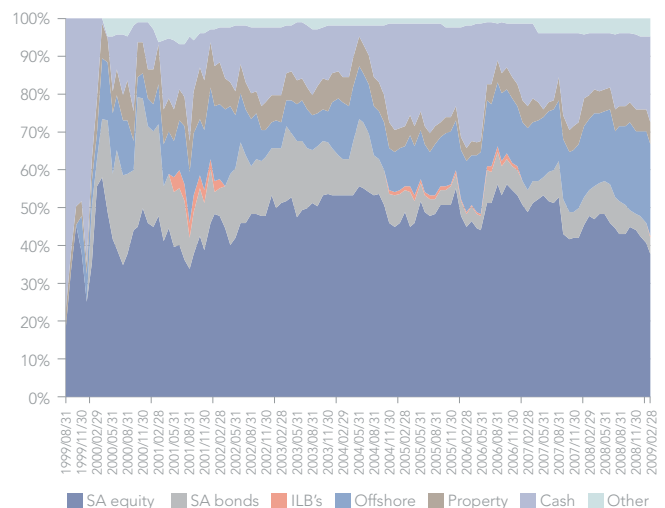
One of the key aspects of a balanced fund is that the manager understands the total portfolio positioning in conjunction with changing capital market conditions. They understand the portfolio exposures and the underlying risks inherent in every aspect and interplay between the various positions. For example, the overall interest rate risk within a portfolio is a function of the bond, listed property and interest rate sensitive equity exposure (e.g. banks and retailers). Another example: to determine the rand hedge exposure within a fund, one needs to look at the allocation to offshore assets, dual listed equities and the offshore component of many domestic equities. One cannot manage the overall sensitivity of the portfolio to these macro drivers without a detailed understanding of the underlying holdings. The portfolio manager understands this best. The overall risk management of the portfolio is better when one has total sight and understanding of the total portfolio. The risk of unintended bets can be easily measured and addressed. Also falling within the risk management ambit is the ability to put hedging strategies in place when they look cheap. For example, when equity markets have run hard, it may be opportune to take advantage of cheap hedging to protect against severe market

turns. Given that many specialist equity mandates have to remain fully invested, there is no available cash to pay for hedging.

The asset allocation decision is important. It should vary, based on changing capital market conditions. We believe it makes sense to leave it to those best placed to make these calls – skilled, professional money managers who can be measured and be held accountable.

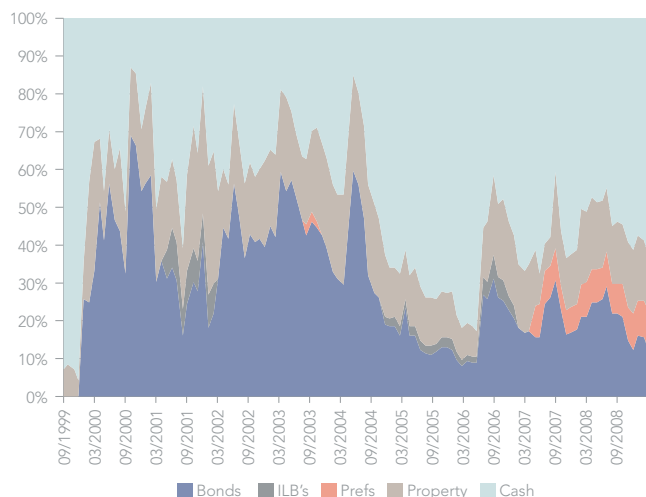
Certain managers have this skill

The biggest driver of the specialist mandate regime in vogue some years ago, was the assertion that most managers did not move the asset allocation of portfolios around actively (they stayed close to the benchmark or peer group), or that they possessed no asset allocation skills – they simply relied on an overweight equity position to bail out portfolio performance. This may have been true at one time, but there are a few select managers who have managed to prove to the contrary. The following two graphs clearly demonstrate this point – they show the asset allocation movement of our absolute return funds (as an enhanced version of flexible asset allocation) since inception in 1999.



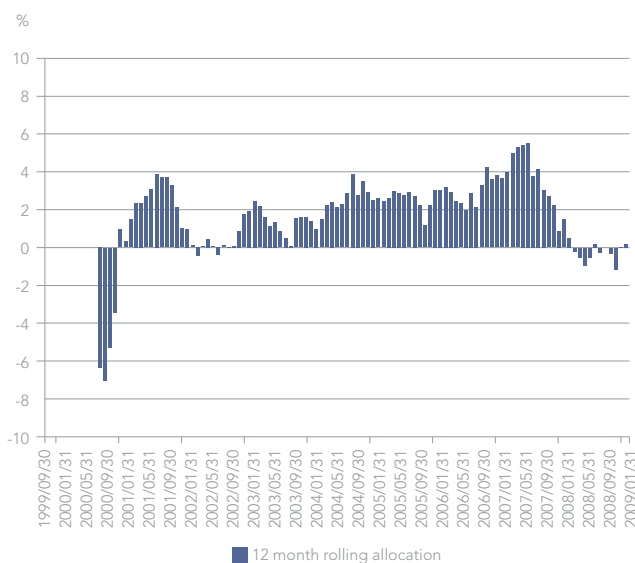
As can be seen, the equity weighting has varied over time depending on our view of market returns.

More importantly, by looking at the next graph we can see that within the fixed income space our asset allocation has been far wider. We have made big calls on bonds versus inflation linked bonds versus cash versus listed property versus preference shares.



The end result is that over the past 10 years, asset allocation has made a consistent positive contribution to total portfolio outperformance and risk reduction.

ROLLING 12 MONTH ALPHA THROUGH ASSET ALLOCATION



One thing is certain, to find a manager with demonstrable asset allocation skill, an investor needs to be very discerning. The move to specialist mandates 10 years ago, forced many asset managers to rethink their business models and silo their product offerings into many boutique products. The focus has been specialising the specialist mandate further and building teams around this in the hope of achieving a greater slice of client portfolios. The end result has been that only a few managers have maintained teams and investment philosophies that encourage, promote and develop better asset allocation

skills. The result of this can be seen in the persistency and consistency of the performance of certain managers in the balanced fund ranking tables.

It has become an intricate decision


The asset allocation decision involves the consideration of a vast number of different alternatives. One key decision is the equity weighting of the domestic and offshore components based on their expected returns. As an example, just under 7% of the total return generated on the Coronation Global Balanced portfolio during 2006 and 2007 came from overweighting domestic equities and underweighting offshore equities. This is a substantial part of the portfolio's return that would have simply been lost within a specialist mandate context.

Other decisions for consideration include, inter alia:

- inflation-linked bonds versus nominal bonds and cash
- bonds versus cash
- listed property versus bonds and cash
- offshore bonds versus local bonds
- developed market equities versus emerging market equities
- exposure to hedge funds versus cash
- credit exposure versus equities and cash

A further complication, which has been added recently, is the increase in offshore allowance and the ability to hedge the currency exposure. Previously, difficult externalisation procedures meant that all managers kept their balanced funds at the full 15% offshore exposure and currency hedging was not allowed. Now, the manager has the ability to increase and decrease the offshore exposure from the maximum of 20% with relative ease. The manager also has the ability to hedge out the currency risk should the manager believe that the currency is overpriced or wish to decrease portfolio volatility.

One could continue with countless other examples, but one thing is clear – the asset allocation and risk management decisions are complex. They also require real-time reaction and a very clear understanding of portfolio risk, objectives and capital market pricing. The current financial crisis has shown many elaborate risk models to have failed. It has taught us that markets move in cycles and that all asset classes go through periods of contraction and expansion. One needs to change portfolio positioning accordingly. The asset manager is at the coalface and can react quickly.

It seems that when all the dust has settled, the next recovery will be marked by a flight to quality and simplicity of product. The balanced fund is very definitely back in favour. 



Absolute Return funds re-open

The Coronation Absolute range is once again open to new institutional clients

After 3.5 years, our Absolute return range of products is once again open to new investments from institutional investors. Investments into the Absolute balanced fund range were closed at R10 billion in September 2005, primarily due to capacity constraints on some of the asset classes actively used within the funds. These include, among others, listed property, inflation-linked bonds and preference shares. Market conditions have since changed and these asset classes have all increased in market capitalisation and issuance. As a result we are now able to re-open the funds to new clients without prejudicing the delivery of return across the portfolios to both existing and new clients.

The Coronation Global Absolute Fund was the first real return fund introduced in South Africa. Originally launched in August 1999, the aim of the Absolute return product range was not to capitalise on investor pessimism but to build a process that would stand the test of time. Our experience tells us that

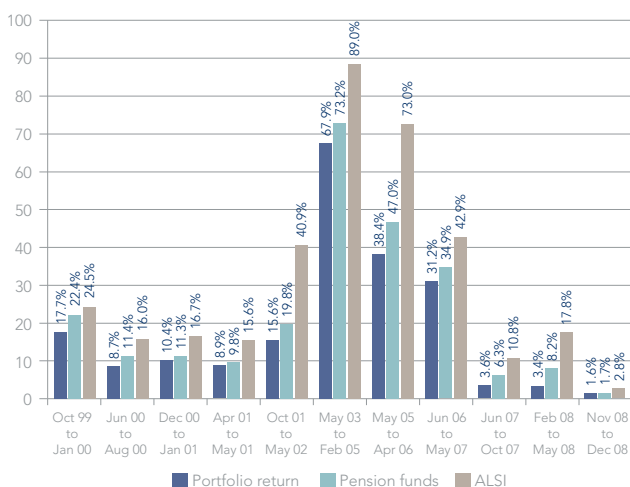
irrespective of market cycles many investors seek to achieve the dual target of low volatility of returns and consistent real returns over inflation; in other words, avoid the high levels of volatility of the markets but still benefit from the gains. This is indeed a most compelling case given the current global market turmoil.

The investment philosophy guiding our Absolute portfolios is one where capital preservation in real terms is of equal importance as return optimisation. The investment approach is focused and active, with emphasis on bottom-up stock selection and strong asset allocation views. A benchmark unrelated to peer group performances gives the Absolute portfolio manager the freedom to vary asset allocation in direct response to market conditions. The stock selection within the portfolios has a distinct valuation bias, a style ideally suited to a 'capital preservation' strategy. All investments in the fixed income universe are made relative to cash and not a quantitative benchmark. As such, the asset allocation has been very varied over time. Active use of derivatives enables us to manage the downside risk of the total portfolio. International exposure is gained through an investment in one or more of Coronation's global range of funds.

The fund strategy does not rely on any one market environment to thrive – the portfolio construction process is robust and adjusted for different market conditions. Furthermore, the strategy is dependent on a continual assessment of the relative value of the different asset classes available – there are no default or benchmark positions in the fund.

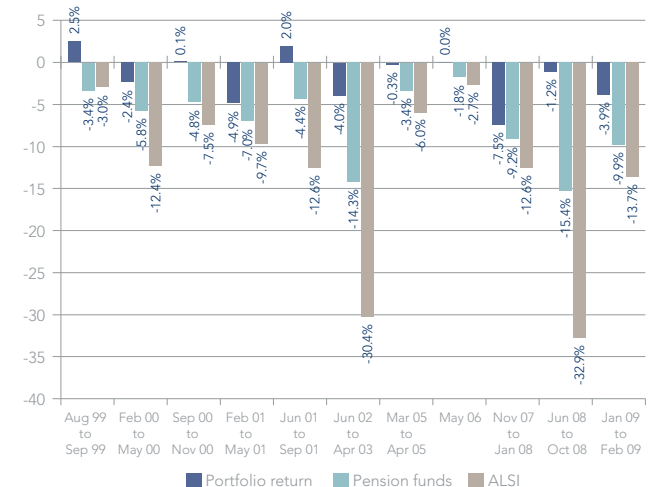
POSITIVE MONTHS – BULL MARKETS

Coronation Global Absolute Portfolio (%)



NEGATIVE MONTHS – BEAR MARKETS

Coronation Global Absolute Portfolio (%)

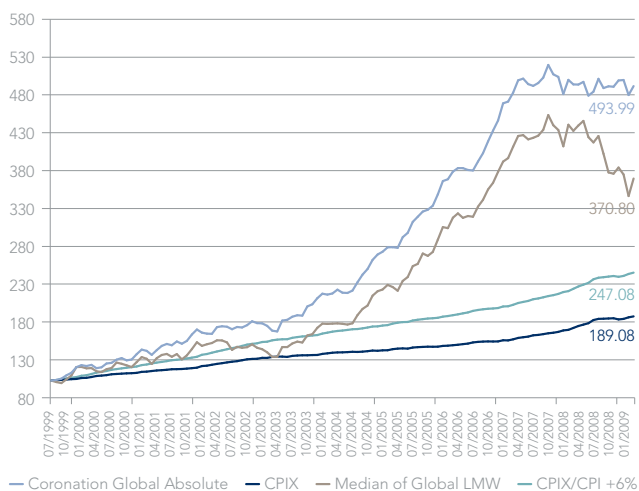


The investment decision-making process of the Absolute team draws on the same research used in arriving at the ‘best Coronation Houseview’ strategy. However, the Absolute team has substantial flexibility to vary both the asset composition and security selection in such a manner as to reduce the risk profile of a portfolio.

The portfolios employ real return benchmarks. The strong focus on capital preservation means that the portfolio may underperform traditional balanced funds during equity bull markets, and outperform during equity bear markets. Performance is therefore likely to be counter-cyclical to that of a traditionally managed portfolio.

Our flagship, Global Absolute Fund has achieved an impressive track record over the past 10 years. Furthermore, the varying market conditions over the decade has shown us how the portfolio reacts under different market conditions, and we have learnt many valuable lessons which have helped improve how we manage the portfolio over time.

CUMULATIVE PERFORMANCE



Coronation Global Absolute Portfolio since inception ending 28 February 2009

Whilst no explicit guarantees are offered with regard to capital preservation over any given period, the aim is not to lose any money over specified periods.


With the re-opening to new institutional investors we have expanded the product range to include a new low-risk portfolio, the Coronation Inflation Plus Fund. Its benchmark is CPI + 3% p.a. over a rolling 3-year period, and no negative return over a rolling 12-month period. This is a global fund, available to institutional clients as a pooled vehicle or as a segregated mandate.

Institutional	Benchmark
Global Absolute	CPI + 6% p.a.
Domestic Absolute	CPI + 5% p.a.
Absolute Bond	CPI + 4% p.a.
Medical Aid	CPI + 4.5% p.a.
Inflation Plus	CPI + 3% p.a.

Unit trust	Benchmark
Absolute	CPI + 6% p.a.
Capital Plus	CPI + 4% p.a.
SA Capital Plus	CPI + 3.5% p.a.

The fund range is managed by the highly experienced portfolio managers, Gavin Joubert, Edwin Schultz and, more recently, Louis Stassen.

The funds will be open for a limited capacity.

Investments into the Coronation unit trust fund range are unaffected by this change and remain open to new investors. 

Equity market update

An interesting start to the year

by KARL LEINBERGER

The first quarter provided no respite to investors, with the MSCI Index declining by 10% in the first two months of the year (after a 40% decline in 2008).

In such a brutal market very few investors have the stomach to buy equities. Most hedge funds ended February with low net equity exposures and many institutional equity managers seem to have 'thrown in the towel' and turned to cash as a source of alpha! As is so often the case, markets rallied when everyone least expected it – in March the MSCI world index rallied by 7.6%, emerging markets by 14.4% and gold declined by 2.4% (gold has become a very crowded place to hide). In all this volatility we continue to hold the view that:

- The global economy is likely to continue to perform poorly for a sustained period.
- Global equities have discounted the bad news and offer an extraordinary opportunity to the long-term investor.
- In a volatile market those investors who try to time the market will get it wrong more often than they get it right.

Domestic equities declined by 4.2% in the quarter, with resources increasing 1.7%, industrials declining by 9.2% and financials declining by 7%. We feel that commodity stocks currently offer good opportunities to stock-pickers. Some commodities are significantly above their long-term midcycle levels, while others trade at distressed levels (below industry cost curves). We continue to find good value in Sasol and, more recently, in Exxaro (whose low-cost, long-life coal assets are currently not being recognised by the market).


Banks led the financial index down with a decline of 9.8%. We have been very underweight banks but bought aggressively in the quarter. At the market lows they were trading at price to books of one and price/earnings ratios of six. While earnings are under pressure in a tough economic environment, we have full



KARL LEINBERGER is chief investment officer and a member of the executive committee. He currently manages the Coronation Equity Fund and is co-manager of the Coronation Houseview Portfolios and Coronation Balanced Plus Fund.

confidence in the stability of our banking system and its ability to ride out the cycle. Our banks are well capitalised and we do not expect that they will have to make the extraordinary write-offs that have besieged their global peer group.

We have not made many changes in our industrial holdings. MTN remains the biggest holding in our fund. We continue to believe that it offers extraordinary value to the long-term investor. It currently trades at eight times earnings one year out and we expect it to deliver above-market earnings growth for the next five years.

In conclusion, although the recent rally has calmed a few nerves, we cannot offer much insight as to whether it will hold these gains. This bear market has truncated investors' time horizons and we remain of the view that the opportunity set increases for long-term investors whenever emotion trumps reason (as is currently the case in many of the world's equity and fixed income markets). 

Outlook on the bond market

Time to start looking for inflation protection?

by MARK LE ROUX

The first quarter of 2009 saw the SA bond market experience a healthy correction following the bull market in the second half of 2008. Long bonds have kicked up more than 150 basis points in yield since their end-December lows, despite the repo rate falling 200 basis points this year. The result has been a significant normalisation of the yield curve.

Although the weaker growth outlook, combined with falling inflation, remains bond supportive, the major detractor to the bond market continues to be the weight of supply. Counter-cyclical fiscal policy is likely to result in a budget deficit around 4% of GDP this year. The funding of this deficit as well as the infrastructure spending by the SOEs (Transnet, ACSA, Eskom, Roads Agency, etc.) is bringing substantial upward pressure to bear on long bond yields.


Recent inflation data, while falling, has started to disappoint the market with its rate of decline and potential base in this cycle. Our view is that inflation will end 2009 around the upper end of the target band based on the lagged effect of last year's material currency depreciation and sticky administered prices, and falling to around 5.5% in 2010.

Based on this view, the time could be fast approaching to start buying some inflation protection in the form of inflation-linked bonds (or ILBs). Government ILBs currently trade at a real yield of around 2.5% (i.e. providing a total return of inflation plus 2.5%). However, what has really whet our appetite in the ILB space recently has been the combination of inflation protection with the corporate credit area of the market in the form of a corporate ILB. Credit spreads on corporates have widened substantially over the past 12 months to very attractive levels of, in some instances, around 300 basis points. As a result, we have accumulated assets in the corporate ILB space at real yields ranging from between 5.5% and 6%.



MARK LE ROUX is responsible for the fixed interest investment process and portfolio management functions for both institutional and retail portfolios. Mark has more than 17 years' experience in managing both traditional and alternative portfolios.

Compared with cash rates, which are likely to decline to around 7% this year, securing real returns of between 5.5% and 6% plus inflation is a great value opportunity.

From a big picture perspective, the global policy actions taken today are likely to have both costs and benefits for the future. Very loose monetary policy, coupled with 'quantitative easing' (effectively printing money), is likely to begin impacting positively on growth and assisting in the global recovery in the nearer term. And the price to be paid somewhere into the future will, in all probability, be inflation. 



The global crisis hits home

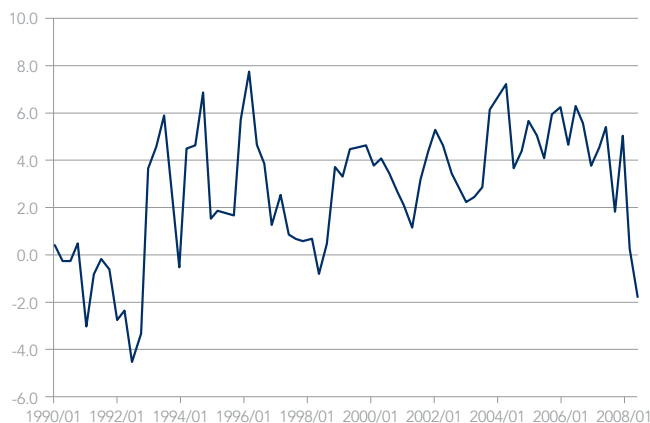
A headline which should be interpreted literally

by CHANTAL VALENTINE

We are now seeing clear evidence of the effects of the global economic and financial crisis on South Africa. To be sure, South Africa is not facing the kind of deflationary, deep recession that some of the developed countries are, principally because South Africa has not had the same kind of problems in its banking system. But the knock-on effects of the global slowdown, coupled with the lagged effects of the 2006-08 rate rise cycle will likely be enough to see South Africa record at least a technical recession. This will be the first recession since 1991/92.

A 'technical recession' is two (or more) consecutive quarters of negative GDP growth (measured at an annualised rate). As can be seen from the chart below, the -1.8% that South Africa recorded in the fourth quarter of 2008 was only the third time a negative quarterly growth rate has been recorded since 1992! This illustrates how impressive the expansion since then has actually been. However, unlike the brief dips in 1994 and 1998, we expect growth to remain negative in the first quarter of this year as well. Happily, unlike the 1991/92 period, we do not expect the negative growth to be either as prolonged or as severe.

SA GDP GROWTH (ANNUALISED RATE)



Source: South African Reserve Bank

The biggest direct impact of the global crisis has been on South Africa's export volumes, in tandem with the slowdown in global demand. This, in turn, has seen a number of sectors in South Africa slowing down. Declines have been especially marked in the manufacturing sector (there is a close relationship between manufacturing production and exports) and mining. As production in these sectors has been curtailed, we have seen knock-on effects in terms of both job losses and a paring-back of fixed investment.

For the consumer, these effects have been amplified by the effects of last year's rate rises, coupled with the expenditure-squeezing effects of higher oil and food prices. Add in more stringent credit granting criteria from the banks as well as the negative wealth effects from a falling stock market and house price deflation, and it is probably unsurprising that consumer spending has contracted sharply.

The private sector is thus being hard hit, with cutbacks across production, investment and the consumer side being seen. However, the outlook is not all doom and gloom. We have already seen interest rates being cut by 2.5% since December, and there will be further significant interest rate relief. This will help the embattled consumer, as well as make cash flow somewhat easier for many companies. Consumers will also be supported by continued relatively strong wage settlements (although this will be offset to some extent by job losses), as well as a tentative stabilisation in house and asset prices.

Internationally, there are also tentative signs that economies may be bottoming. For sure, growth is negative and is unlikely to be sparkling any time soon. But developed country governments, desperate to avoid a depression scenario, have been very proactive in terms of throwing massive amounts of monetary and fiscal stimulus at the problem. Some developed countries will be recording budget deficits in excess of 10% of GDP this year – a number that a couple of years ago would have been unthinkable. We have also seen central banks slashing rates, in some instances to levels not very much above zero, i.e. just about as low as they can possibly go, for example, Japan's central bank rate is 0.10%, the US Fed's is 0.25% and the Bank of England 0.5%. Added to this has been 'quantitative easing' – which can be summed up as central banks effectively printing money, another concept that a couple of years ago would have been anathema. (These responses are likely to lead to inflation further down the line, but in the face of concerns about a deflationary recession, governments have adopted an approach of 'we'll be happy to have that bridge to cross when we get to it'.)

Such huge responses will have an effect, and indeed there are already signs that global manufacturing and exports, for example, have bottomed. We are not out of the woods yet, but have sight of the trail that will lead us there.


For South Africa, this is also a sign not to get overly pessimistic about prospects. Manufacturing performance in particular has been dismal, but South Africa's manufacturing production tends to follow global manufacturing indices with a short lag. With the global indices already having recorded three consecutive months of expansion, we are probably seeing South Africa's manufacturing bottoming round about now. Local inventories have also been run down aggressively, and at some point this process will have to end and that will also support manufacturing beginning to expand again.

While we are waiting for the various private sector categories to re-establish a footing, the economy will be buttressed by continuing fiscal support. With government having recorded very small deficits or surpluses in preceding years, it has the wherewithal to provide counter-cyclical fiscal stimulus now, and that is exactly what it is doing. The Finance Minister announced a projected budget deficit of 3.8% of GDP for the 2009/10 fiscal year, although we think that the final outcome will probably be somewhere over 4% of GDP. This will be the largest budget deficit South Africa will have recorded since 1996/97. The difference this time is twofold: firstly, that we are coming off a base of fiscal conservatism and, secondly, this time the deficit actually looks small compared to many other countries! In other words, this time round we can afford this deficit.

As an illustration of the support the fiscus is providing, two numbers are worth noting. The first is that government consumption expenditure in 2008 rose above 20% of GDP for the first time since the early 1990s. The second is that total public sector expenditure, including government and parastatal investment, is now at almost 30% of GDP, its highest level since

the mid-1980s (apart from a 1994 spike at the elections). Thus, government will be able to lend a significant degree of support to the economy while the private sector adjustments take place. The caveat is that once the slump is over, we will need to see a return to previous, more conservative fiscal policy.

The ability of the central bank to provide relief is somewhat more constrained. As mentioned, we do expect to see significant further interest rate cuts, in the region of another 2%, to take total cuts to 4.5% and the SARB's repo rate down to 7.5%. This is low, but clearly not as low as the major country central banks. The principal reason for that is that while they are facing the prospect of recording deflation this year, South Africa is still very likely to record an average inflation rate above the top of its target range this year, and not very far inside it next year. We are more concerned than the SARB appears to be about the effects of last year's rand fall on inflation, and less convinced that the domestic demand slowdown will restrain price rises.

2009 will be a tough year; although we can see the end to the downturn, it will be some time in arriving. But the prior implementation of sound macro policies has given both the government and the SARB room to act counter-cyclically and support a pro-growth focus. However, these actions must still be done in an appropriately sound way, so as not to jeopardise future sustainable growth prospects. 



CHANTAL VALENTINE joined Coronation as economic and fixed interest strategist in 2003. With 17 years' experience in analysing local and global markets, she plays a critical role in the investment decision-making process.

MTN

Well positioned in attractive markets

by PALLAVI AMBEKAR

MTN's latest annual results for the year ended December 2008 are excellent, when looked at in isolation, and exceptional given the current global economic environment.

Subscribers increased by 48%, revenues are up 40%, EBITDA* up 36% and adjusted headline earnings per share up 33%; this strong performance is a continuation of the growth story which began in South Africa. MTN is currently the largest African mobile telecommunications player, with a presence in the Middle East. However, despite the stellar results, increased risk aversion from investors has put the share price under pressure, and this we believe has created an attractive investment entry point. Here are the reasons why:

Emerging market opportunity: low penetration = high growth potential

MTN has licences in 21 countries, of which five comprise close to 80% of the company's profitability – South Africa (25% of EBITDA), Nigeria (42% of EBITDA), Ghana (7% of EBITDA), Iran (4% of EBITDA) and Syria (4% of EBITDA). MTN launched operations in South Africa in 1994. Fifteen years later, South Africa is a highly penetrated (97% penetration) market and yet MTN still managed to grow revenues by 15% in this supposedly 'mature' market. Going forward, South Africa will continue to be material in MTN's portfolio, but the real growth will come from the other four main operations.

Country	Total population million	Mobile penetration		MTN market share 2008 %
		2008 %	2012 %**	
Nigeria	143	36	67	44
Ghana	23	50	87	55
Iran	71	61	82	37
Syria	20	38	55	46

* Earnings before interest, tax, depreciation and amortisation

** Coronation estimate



PALLAVI AMBEKAR is senior research analyst, responsible for analysing the telecommunications companies, Remgro, Richemont as well as the hotel and leisure sector.

With the exception of Iran, MTN is the market leader in Nigeria, Ghana and Syria. In 2008, MTN added 22 million subscribers in these operations and plan to add a further 13.5 million in 2009. The opportunity in these markets not only lies in the growth of the subscriber base but growth in voice usage from existing subscribers.

Growth in revenues = growth in profitability

As MTN builds scale in its operations, it is likely to lead to margin expansion. One of the biggest operating costs for a mobile operator is the interconnect payment – the regulated payment made by one operator, e.g. MTN, to another, e.g. Vodacom, when an MTN subscriber makes a call to a Vodacom subscriber. As the market leader in many of its markets, MTN can encourage its users with discounted tariffs to make more calls to other MTN subscribers (an 'on-net' call). An on-net call has a structurally higher margin as there is no interconnect payment to be made to a competing operator. By increasing the more profitable on-net traffic on its own network, MTN is able to expand margins as voice usage grows. Further, as revenues increase MTN's other fixed costs (salaries, marketing, network maintenance) do not increase at the same pace, thus contributing to faster growth in profitability.

Cash flow generation and balance sheet

Generally, mobile operators convert most of their profits into free cash as there is no working capital funding requirement. During a growth phase, capital expenditure will exceed the depreciation charge and cash flow conversion will be lower than normal. In the 2008 results, MTN announced that its capital expenditure budget for 2009 will be increased by 33% to R37 billion (2008: R28 billion, 2007: R15 billion). This is in stark contrast to competitors' plans to maintain or reduce their capital spending in light of the uncertain environment. By using this unique 'land grab' opportunity, MTN will be able to strengthen its market share position in key markets.


Seventy-five percent of the capital budget will be spent in South Africa, Nigeria, Ghana, Iran and Syria. Despite heavy spending on network rollout, MTN's balance sheet remains in a healthy position. Net debt to EBITDA as at December 2008 was 0.3x and interest cover was 12.3x.

Acquisition opportunities

MTN's last major acquisition was the purchase of Investcom for US\$5.5 billion in 2006. This acquisition transformed the company, increasing its footprint from 10 to 21 countries and broadening its population under coverage by 43% to 488 million. In 2008, MTN held talks, firstly with Bharti Airtel and then with Reliance Communications, with the aim of concluding an acquisition in the Indian mobile telephony market. Both sets of discussions did not lead to anything, which in hindsight was fortuitous, given where valuations are currently. MTN continues to be on the lookout for value-enhancing acquisition opportunities and sees itself as a consolidator in this environment. While a future

acquisition cannot be captured into the current valuation of MTN, the conclusion of a large deal may once again prove to be company transforming.

Risks and valuation

Given its geographical exposure, MTN faces the same political, currency and regulatory risks as all other companies operating in Africa and the Middle East. In valuing the share we have taken this into account by using a higher discount rate for these operations. Other than these risks, increasing competition in MTN's key markets may also put pressure on future profitability. Our valuation focuses on normalised revenues, margins and cash flows generated by each country. MTN offers decent upside from these share price levels and is on very attractive forward valuation multiples. This, together with the long-term growth potential, has resulted in our adding significantly across portfolios, making MTN one of our top five holdings. 

International markets

Resist the temptation to capitulate

by TONY GIBSON

Following on from the truly awful market environment of 2008, the new year started with some optimism that things would begin to improve.

A slight pickup in the ISM number, the Baltic Dry Index, and a few commodity prices led to some hope for the severely impaired cyclical sectors of the market. That hope was however short lived as worries emerged relating to Eastern Europe, as well as the solvency of both banks and insurance companies across the globe. The state of a few US corporates produced some shock waves. AIG's mammoth loss of US\$99 billion for the full year, culminated in a record-breaking US\$62 billion in the fourth quarter alone. Citigroup's third bailout in the space of a few months saw the share trade below US\$1 on the back of huge dilution. Rumours regarding the financial health of General Electric also sent its credit spreads higher than that of Russia. Last but not least, the revised fourth quarter GDP numbers of -6.2% in the US (on the back of Japan's poor numbers) contributed to frantic selling across the board. To give these falls some context, as at the end of February, European equity markets had fallen for 18 out of the last 21 months for an accumulative loss of 56%. The financial sector in the US reached a 17-year low, after collapsing 83% from its peak and eclipsing the tech wreck of -82% from 2000 to 2002.

As at the early March period, many records were being tested or broken. The World Bank signalled that 2009 would witness the first decline in Global GDP growth since before World War II, and the first shrinkage in global trade in 80 years. With foreclosure activity booming, there were 19 million empty homes in the US at the end of 2008. In January, factory orders in the US, and the German IFO survey, respectively fell to 18 and 26-year lows. Japanese exports collapsed by 46%, and electricity demand in some European countries fell by up to 8%. Rents in Dubai have been driven down by as much as one third over the past three months. The Dow Jones fell below 7000 in early March for the first time in 12 years, and the US budget deficit is



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set to quadruple to US\$1.75 trillion in 2010. This takes it to 12.3% of GDP, a level last seen in 1942, making Warren Buffet's talk of a current 'economic Pearl Harbour' seem very relevant!

As of 8 March, equity markets worldwide have staged a significant rally. While it was initially triggered by an optimistic internal memo from Citigroup's CEO, and subsequent details on the US Treasury's bank rescue plan, the real catalyst was likely the fact that markets had simply become oversold. The levels of bearishness had certainly reached the usual contrarian lows, and consequently financials and cyclical shares had a significant rally, while defensive segments of the market were used as sources of cash. How long this rally (and switch into cyclical sectors) lasts is difficult to predict, as is the question of how long the bear market will endure. Therefore, as always, some analysis of the current situation within a longer-term context is the best way to add perspective and thereby provide an answer to this question.

At the market low point (so far) in early March, the S&P had just been through the worst six-month decline on record – if adjusted for inflation. While it is true that the US market fell by 47% during this six-month period, as compared to the bigger 52% of the final six months of the 1932 bear market, it must be remembered that inflation in 1932 was actually a negative 10%. Cumulatively, now in real terms, the US equity market has fallen by 64% since the bear market started in 2000. This fall makes it the second worst bear market over the past 100 years, second only to the 1929-32 bear market with a real fall of 83%. Excluding the 1929-32 bear market, we in fact need to go back to 1857 to find a fall of similar magnitude, during which time the US equity market fell by 66% in real terms. This shockingly poor recent performance from global financial markets presents us with some sobering statistics:

- Over the past 18 months it is estimated that US\$50 trillion has been lost. To give this some perspective, it is equivalent to one year's global output, or all financial gains since 1997.

- 288 of the S&P 500 companies cut or suspended dividend payments during the fourth quarter of 2008.
- Japan's equity market is now 83% below its peak of 1989.
- US equity markets have now underperformed bonds since 1969.

Inevitably, many investors who suffered these negative returns have begun to question a number of the precepts that had become widely accepted over the past 25 years. The core belief of course being that equities are the best means of wealth creation over the long run due to their ability to generate rising cash flow streams to investors in the form of dividends. Equities, therefore, have historically provided a very robust hedge against inflation. Thus, in the face of equity markets, which have halved in recent months, it is appropriate to re-examine the very long term returns from equity markets in order to gain more clarity. Some core observations are as follows:

- During the 109 years from 1900 to the present, global equity markets have compounded at an average of 9.9% per annum in real terms.
- By comparison, bond markets have compounded at 4.9% in real terms.
- In case one forgets the power of compounding, \$1 invested in equities in 1900 would today be worth US\$582, whereas the equivalent in bonds would be US\$10 in real terms.
- As at early 2009, on a rolling 10-year basis, US equities have returned investors a negative 4% per annum over the past 10 years in real terms. Clearly a poor return. However, since 1840, there have only been five occurrences which produced a similarly poor negative 10-year real return.
- The most important observation, however, is the fact that those low points provided wonderful buying opportunities. Investors were rewarded with real 10-year rolling returns reaching the 15% – 20% range within the following five to 10 years.

It is our view that we are presently witnessing such an opportunity. That is not to say that global equity markets might not fall even lower over the next six months. After all, there is no doubt that the global economies are in a very dire situation. It would seem logical to assume that a number of years of muted growth are a necessary remedy in order to rebuild savings, and for financial prudence to reassert itself into the Western capitalist culture. That said, we do not believe that the Western economies are entering a multi-year period of deflation or depression. In summary, our reasons for believing this are as follows:


- The financial authorities – particularly in the US – realise the gravity of the situation. Not only do they have the benefit of studying the lessons from the 1929 great depression, but they also have the more recent precedent (of what not to do) set by Japan over the past 20 years.
- They do realise that when the financial system shuts down (as it recently has) due to a total lack of confidence, it can only be governments that remedy the financial system by assuming control of credit markets. As a result, they are not repeating the past mistakes, and are intervening on an unprecedented scale; the price of which are massive budget deficits.
- Governments also realise the importance of clearing the toxic assets from banks' balance sheets and have recently taken major steps to address the situation. This point, and the need to run fiscal deficits, unfortunately took Japan six years to come to terms with.
- While these measures will clearly not cure a problem that took two decades to create, they are of such magnitude that they will work with the flux of time.
- As severe as the economic collapse in global trade was in the final quarter of 2008, it was entirely due to a dramatic destocking cycle by companies around the world. It was not, however, due to a collapse in inflationary expectations – thereby suggesting an imminent depression scenario.

Turning to shorter term, we do not presume to offer an opinion as to when volatility will reduce and equity markets form a sustainable low point base. However, it does seem that there are some early signs of this happening. Some points that we would offer as suggesting that sentiment is in the process of forming a bottom are as follows:

- History suggests that credit markets bottom about six months before equity markets do. This has been the case during recent bear markets, and was indeed the case during 1932. What is encouraging to note is that equity markets and credit markets reached new lows in November 2008. In early March 2009 the equity markets broke through this low, creating a new low point. However, credit spreads did not – retaining their November low.
- China was – with the benefit of hindsight – a major factor in the destocking cycle at the end of 2008. What is therefore encouraging is the fact that there is some evidence that in recent months China has resumed a degree of restocking as inventory levels were unsustainably low.
- Although very early, there have been recent signs of an improvement in the US housing market. More specifically California – which went into the property decline early on – has recently reported evidence of a pickup in property turnover, and a bottoming in prices.

- Equity markets have recently exhibited a very healthy sign: In recent weeks, really poor corporate news has not been met with anything close to the ferocious markdowns that would have been the case a few weeks back. In fact, poor economic statistics or poor company profit reports have been met with increasing indifference. This would tend to suggest that all but the direst outcomes have largely been discounted by investors.

In summary, we would like to urge our clients not to be reactive during the current market turmoil. Now is not the time to be

wholesale sellers of equities, with a view to moving into the relative safety of fixed interest investments. The end of 2007 was the time to do that – and we congratulate those who did. Now is a time to be guided by the longer-term perspective that the study of history offers us. This shows that, while further market weakness is quite probable in the short term, a longer-term perspective suggests that the next six months will in all likelihood provide a buying opportunity as good as any offered over the past 100 years. That is, as always, provided that your time horizon is five years and longer. 

Green shoots of recovery

Our position and outlook for the Veritas Asian Fund

by guest contributor EZRA SUN

The rally in Asia ex Japan is a vindication of what we have been espousing in the past four months. We started to become more positive about the Asian markets towards the end of last year, investing our cash holdings in early December.

The trading portfolio was increased relative to the core book and we gradually moved away from a very defensive portfolio, to a more balanced portfolio to embrace the opportunities we saw in the market. Sectorwise, we reduced telecom and utility exposures, moving more money into consumer-related companies, property developers and engineering companies, which we believe are likely to benefit from significant fiscal spending in the future. From a combined 22%, we increased our weighting in China and Hong Kong to about 45%. It is always difficult to outperform in the initial stage of a rally in the market as the more risky, poorer quality stocks tend to rise more quickly as the short sellers rush to cover their positions. This would usually lead to strong temporary momentum in these stocks, enticing more investors in and bidding them ever higher. We expect that as the initial flurries to exit short positions subside and momentum dissipates in these companies, we will see significantly better performance from the quality stocks



EZRA SUN is portfolio manager of the Veritas Asian and Real Return Asian funds

with positive structural growth outlook that we have been accumulating in the past few months.

Valuation and China recovery are the reasons why we became positive on Asia. These two reasons still stand. We highlighted the impressive loan growth in December and suggested that this is a good early indication of growth recovery as money finds its way into the economy. We are happy to report that this trend is continuing and has started to have a positive impact in the real economy. Thus, the PMI number (a measure used to gauge economic activity) is now 52.9% (49% in February), indicating expansion for the first time in six months.

Sectors directly benefiting from the country's increased spending in infrastructure, such as electrical machinery and transport equipment, saw new order growth at 60% – 70% compared to last year. Property transaction volume has skyrocketed in many cities. For example, the top 30 cities in China saw a 50% jump in total area of sold residential housing in March, after similar growth in February. In Beijing, the number was up 95%, Shenzhen up 240%. Investment in fixed assets increased about 26% in the first two months. Car sales growth was also strong,

up 20% in February. Incidentally, China now sells 850 000 cars a month, surpassing the US this year and making it the largest market for car sales in the world. Electricity output, which showed significant decline, is seeing positive growth. Most amazing though, is that loan growth trend continued into January, February and March. Total loans disbursed in the first three months are now equivalent to total lending in 2007. We think this quasi fiscal credit expansion will go a long way in boosting economic activity. We are now expecting significant quarter-on-quarter GDP growth in the next two to three quarters and are expecting year-on-year growth to be over 8% as early as the third quarter. As a result we are increasingly confident that the all important 8% GDP growth for the year is well within the country's grasp.

However, the positive outlook for China is not just based on the cyclical rebound the economy is likely to stage with aggressive monetary easing and strong fiscal spending. It is predicated on the structural reforms that have been introduced in the past six months; these reforms in our view will make sure China embarks on a more balanced growth path. The rural land reform, combined with the urban housing reform in the early 90s, is probably the biggest transfer of wealth from the state to individual citizen in recent world history. This happening in a nominally 'communist' state is another irony in this age of many ironies when globally, in the more traditional capitalist societies, the state will soon need to have a bigger share of national income to pay for the debts that they have built up. In our rough calculation this transfer of wealth is around US\$6 trillion, which is double China's annual GDP. The economist at CICC, China's premier investment banking house, estimated that using the annual average areas transferred for urban development, this transfer will generate US\$80 billion income per annum for the farmers. This in our view will encourage consumption in the rural areas. The other reform measures, such as strengthening the existing underfunded social welfare system and the introduction of universal healthcare coverage, brought forward to be completed by 2012, will certainly lead to better consumer spending as the propensity to save is reduced. The increased spending on social welfare in Japan during 1970-80, saw the high saving rate drop 10 percentage points from the highs of 23% to about 15% in the late 80s, fuelling a massive domestic consumption boom. The Chinese saving rate is currently at 36% and any structural reforms that will lead to even a small drop in this percentage will have significant impact on economic growth.


Chinese growth is clearly positive for Asia. Increased demand from China in the past three months has led to a modest recovery

in Asian countries selling to China. Korea, for example, saw a 10% month-on-month growth in its exports from February to March. We believe export numbers from these countries will be incrementally better in the coming months as the recovery starts to impact on China's neighbours. This will change sentiment towards these heavily shorted markets.

From a funds flow point of view, it is also very encouraging. According to Deutsche Bank's estimate, at least 60% of the combined net inflow from 2003-07 has now been repatriated. Asian markets are now seeing record low foreign ownership levels. It is now clear to us that local investors have taken advantage of this, particularly in the past few months. What is interesting is that markets where foreign presence was small, or getting smaller, are better performers than the rest. For example, the Chinese 'A' share market, where foreign presence is negligible, is up 30%; the Korean market, where foreign ownership has fallen from 45% two years ago to about 30%, rose 12%; and the Taiwan market, where foreign ownership has fallen from a five-year average of 35% to 22% last month, saw a 20% rise. It looks to us that as the foreigners sell out in panic, the locals are happily picking up the bargains and laughing all the way to the bank. We expect, as the market continues to move up in Asia, more and more of the money that has left will gradually drift back. We are already seeing foreign ownership rising surreptitiously, up to 23.5% in Taiwan for example. The reversal of the outflow, if sustained, can be very bullish for Asia.

Analysts' earnings revisions in our view have also started to show signs of improvement. In the past six months, earnings revisions were about 2 to 1 in favour of downgrades, but in the past three months this has dropped. Some markets, such as China and Taiwan, have seen the number of upgrades and downgrades becoming almost even in the past month. This indicates to us that analysts have now finally cut earnings forecasts to a reasonable level. The probability of earnings upgrades as the macro economic conditions improve is gradually increasing.

The fund remains focused on domestic demand in Asia. Our favoured sectors continue to be the consumer staple, consumer discretionary companies, infrastructure, healthcare, education, internet and mobile telephony.

Ezra Sun manages the Veritas Asian Fund, in which our Latitude, Global Equity and World Equity funds are invested. He also manages the Veritas Real Return Asian Fund, in which our Global Equity Alternative Strategy Fund is invested. 



International portfolio update

■ Coronation Global Equity Fund of Funds

The Coronation Global Equity Fund of Funds returned -8.75% for the quarter, against -11.78% from the benchmark MSCI world index. For a rolling 12-month period, the fund's return of -39.09% is ahead that of the benchmark's -42.19%.

In terms of regional performance, Japan was the worst performing country, declining 16.6% (in US dollars) over the quarter due to a combination of the weak market and the yen, which weakened by almost 10% against the dollar. Western Europe declined by 14.5% (in US dollars) after big falls in Germany and France. Asia ex Japan was relatively strong, falling 2.2% over the quarter. The fund is underweight North America and Europe and overweight Asia and Japan. Consequently, the regional allocation made a small contribution to the fund's outperformance over the period.

On a look-through basis the fund has a large cash balance of around 20%, which indicates the general negative outlook held by most of the underlying managers.

Select Equity Group's (SEG) Great Jones Fund had an excellent quarter finishing with +0.5% against the MSCI world index which declined 11.78%. Great Jones is a highly concentrated, almost fully invested portfolio. SEG is often contrarian in nature and has recently added a number of listed asset management companies which are priced at well below their intrinsic value.

Royal Capital Alpha was another strong performer. Although more value orientated, they have recently been buying more quality companies which, in their opinion, have been so oversold that they offer compelling value.

As a group, the European funds also performed very well, benefiting from good stock selection and allocations to cash. KDA European fund made a good start to the year and is currently 6% off its benchmark. Adelphi European Fund and Lansdowne European are only marginally behind. All three managers are currently very risk adverse, which served them well during January and February but resulted in the funds lagging somewhat during the March rally.

Detractors for the period were the two Asia funds, which failed to keep pace with the strong Asia rally in March, and Wyper Core Fund which delivered a disappointing -1.2% in March. This fund has carried a high cash weighting for some time, but the negative performance was mainly due to insurer Munich Re, which missed its earnings estimates and was significantly sold down.

During the quarter we redeemed our entire holding in Neptune Russia Fund and trimmed Wyper Core Fund. We also increased our exposure to Asia through additional investments in Veritas Asia Fund and Comgest Nouvelle Asie and made a small addition to UOB Kinetics Paradigm.

■ Coronation World Equity Fund

The Coronation World Equity Fund returned -6.06% for the quarter, against -11.78% from the benchmark MSCI world index. For a rolling 12-month period, the fund's return of -35.6% is ahead of the benchmark MSCI world index which fell by 42.2%.

The fund's regional allocation and underlying investments largely match those of the Coronation Global Equity Fund, however due to the fund's stricter regulatory constraints, the underlying fund investments differ somewhat.

As at quarter end, the fund had a cash holding of 16%, but this was reduced on 1 April as the fund added two new investments into the Legg Mason Value Fund and Cantillon Global Value Fund. Legg Mason Value is managed by the legendary Bill Miller who, following years of well above market performance, has recently suffered very poor performance due to value investments being hard hit over the past 18 months. We believe that he remains an excellent manager and is more motivated than ever to once again prove this. More importantly, we think that his style of investing in undervalued high quality companies will dominate returns over the next few years. Similarly we believe that the Cantillon Fund, where the focus is on finding companies with a high return on equity on a low PE multiple, will continue to outperform the market.

■ Coronation Latitude Fund

The fund's return for the quarter ended 31 March 2009 was -2.2% and -1.7% in USD and ZAR respectively. As investors will no doubt be aware, the first quarter of 2009 was an extremely volatile period in investment markets. Of the major world equity markets, the S&P lost 11%, the Dax 20%, and the Nikkei 16%. What these numbers mask, however, is the fact that equities, after reaching a low point on 6 March, rallied by 20% between that date and the month end. As an example of the volatility, the

financial sector shares in the US rose by 18% in March, but are still down by 29% for the quarter.

Given this environment, and the effectively zero return from cash, we are reasonably satisfied with the quarter's return.

At the start of the year the fund was conservatively positioned, with an equity exposure of 18%. This comprised an 8% exposure to emerging markets, 5% to the S&P index, and 5% exposure to the Nikkei index. The only other exposure was a 14% position in US inflation-linked bonds, of which 10% was hedged against a rise in the US yield curve. The balance of the portfolio of 68% was held in cash.

During the quarter the risk profile of the fund was slightly increased, reflecting the growing likelihood of a market rebound. The S&P/Nikkei positions were increased to 16%, while a 6.5% exposure to seven direct equity investments was introduced. In addition, a 3.5% exposure to a physical gold bullion future was added to the portfolio. This has subsequently been increased to 6% after the quarter end. The emerging market fund and inflation-linked bonds have been retained. The remaining 55% of the fund remains in cash.

The key theme running through this fund is capital preservation, within an environment which increasingly points to an increase in global inflation over the coming years.

■ Coronation Global Equity Alternative Strategy Fund

The Coronation Global Equity Alternative Strategy Fund (GEAS) outperformed the MSCI world index by 11.57%, with a return of -0.21% for the quarter. GEAS has outperformed the MSCI world index by 22.41% on a rolling 12-month basis.

The net exposure of the fund has remained relatively constant at an average of 22% net long during the quarter and 98% gross. This has provided protection on the downside in a volatile and uncertain market environment, but also resulted in the fund not participating fully in the strong market rebound in March.

All US managers produced positive returns for the quarter compared to the S&P500 which has a year-to-date return of -11.67%. The best performing US manager returned +12.74% and the worst performer returned +0.8%.

Similarly in Europe, all managers in the portfolio outperformed the Pan European (Euro) Index, which declined -11.8% over the

period. The best performing manager returned +6.7% and the worst performing manager -3.3%.

The top performing Asian manager returned +1.77% and the worst performer -2.49%. The Pan-Asian Index was hurt by Japan, producing a return of -10.6% for the quarter.

During March we invested in a global equity long short fund, which has produced a return of -0.84% for the year to date.

The use of an equity long short strategy in the current recessionary environment should take advantage of opportunities on the long and short side. The current economic environment should see a distinct differentiation between strong companies and those that will struggle. Market volatility is expected to continue to play a part as investors speculate whether the current economic recession is fully priced into the market or not. 

Note: all returns quoted in USD.

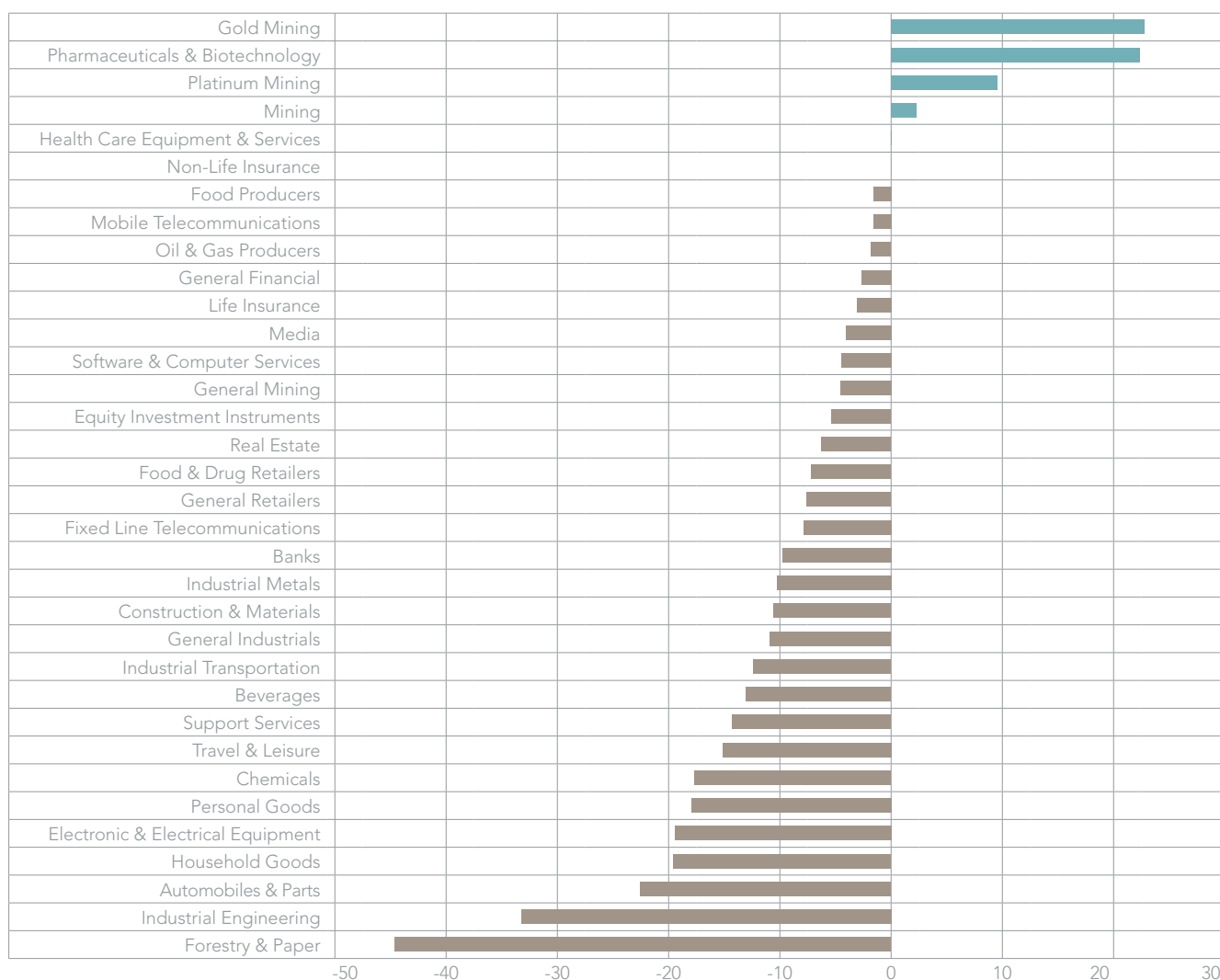
MARKET MOVEMENTS

Economic group	Qtr 1 2009 %	2008 %
All Share Index R	(4.2)	(23.2)
All Share Index \$	(4.7)	(45.1)
All Bond R	(5.1)	17.0
All Bond \$	(5.6)	(16.4)
Cash R	2.8	12.4
Resources Index R	1.7	(28.4)
Financial Index R	(7.0)	(26.2)
Industrial Index R	(9.2)	(16.1)
MSCI World \$	(11.8)	(40.3)
S&P 500 \$	(11.0)	(37.0)
Nasdaq \$	1.0	(41.2)
MSCI Pacific \$	(12.7)	(36.2)
Dow Jones EURO Stoxx 50 \$	(18.9)	(45.2)

KEY ECONOMIC DATA

	2005a %	2006a %	2007a %	2008a %	2009f %
HCE	6.9	8.3	6.6	2.3	1.3
GCE	4.8	5.1	4.8	5.0	5.0
GFCF	10.2	13.2	16.3	10.2	4.4
GDP	5.0	5.3	5.1	3.1	0.8
Current a/c % of GDP	(4.0)	(6.4)	(7.3)	(7.4)	(5.6)
CPIX average (CPI 2009)	3.9	4.6	6.5	11.3	6.9
Prime rate (year-end)	10.5	12.5	14.5	15.0	11.0
R/\$ year-end	6.33	7.02	6.83	9.92	10.00
R/EUR year-end	7.51	9.27	9.94	13.44	12.60

JSE YTD PERFORMANCE

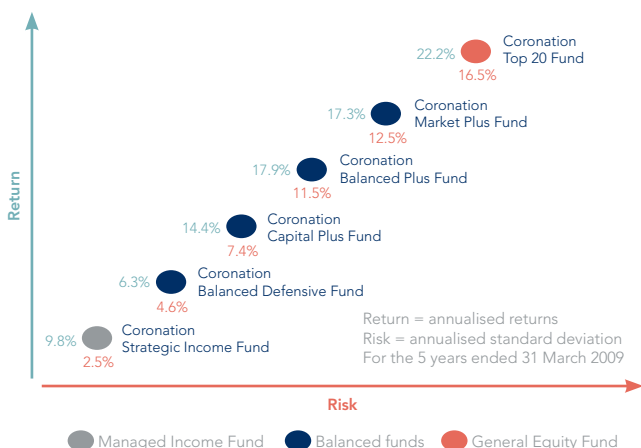


Personal investments update

Core funds

While we offer a wide variety of funds suitable to fulfil many different investment needs, we know that having too much choice can become rather daunting. To make life simpler, we emphasise a carefully selected group of funds as our core range of domestic funds. These funds are managed to achieve clear objectives and are designed to make the investment decision-making process easier.

5-YEAR ANNUALISED RETURNS



Performance quoted from Morningstar as at 31 March 2009. Figures quoted assume all income is reinvested and are after deduction of all costs.

Our core funds span the risk spectrum, from a conservatively managed income fund to an aggressive, concentrated equities-only fund. The heart of the range is made up of four balanced funds*, in which the trade-off between maximising long-term gains and minimising short-term losses are made in different ways.

Exceptional and consistent performance

Each of the core funds has produced exceptional and consistent performance relative to peers, achieving the following performance in their respective categories over the last five-year period:

Fund Name	Performance
Strategic Income	Above category average
Balanced Defensive**	4th in category
Capital Plus	2nd in category
Balanced Plus	2nd in category
Market Plus	2nd in category
Top 20	1st in category

** Performance information for Balanced Defensive is for the past two years, as the fund was launched during 2007.

* THE DIFFERENT APPROACHES OF THE FOUR BALANCED FUNDS

	Balanced Defensive	Capital Plus	Balanced Plus	Market Plus
Long-term return benchmark	Cash returns + 3% p.a. over the medium to long term.	Inflation + 4% p.a. over the medium to long term.	Maximum return within prudential constraints. We expect returns of inflation + 6% p.a. over the long term.	Maximum return with no specific constraints. We expect returns of inflation + 6% to 7% p.a. over the long term.
Risk target	To not lose money in any 12-month period.	To achieve similar returns to the average balanced fund, but with significantly less risk.	To achieve better returns than the average balanced fund, at similar risk levels.	To capture most of the equity risk premium over time, but at significantly lower risk than a passive investment in the market.
Maximum exposure to equities	40%	65%	75%	100%
Minimum recommended investment period	2 years	3 years	5 years	5 years

Award winning

The Coronation World Equity (ZAR) Fund of Funds and the Coronation Bond Fund were recognised as category winners at the Morningstar/Financial Mail 2009 Fund Awards ceremony held on 15 April.



Removal of initial fees


We discontinued the charging of initial fees on investments placed via third-party platforms from 1 March 2009. This now brings all investments into line, be they placed via linked product platforms, savings policies offered by the life industry,

external unit trust-linked retirement products or directly through our client service centre.

All Coronation unit trust funds are available at no initial cost to investors, regardless of mandate type or access point.

Benchmark change affecting the Coronation Property Equity Fund

The benchmark for this specialist fund will change during May 2009. In future, performance will be evaluated against the total return of the FTSE/JSE SA Listed Property Index, rather than the current benchmark based on the average performance of the peer group. This we believe is a more appropriate benchmark given that the fund is a specialist building block portfolio focusing on one asset class only.

For information on any of our unit trust funds please contact our client service team on 0800 22 11 77. 

PERFORMANCE TABLES

FUND	LAUNCH DATE	1 YEAR	3 YEARS	5 YEARS	SINCE LAUNCH	TER
SOUTH AFRICAN COLLECTIVE INVESTMENTS						
DOMESTIC EQUITY FUNDS¹						
Equity	15-Apr-96	▲ (19.08%)	▲ 2.93%	▲ 18.65%	▲ 16.12%	1.42%
FTSE/JSE Shareholder Weighted All Share Index		(25.01%)	2.55%	17.88%	11.22%	
Top 20	1-Oct-00	▲ (10.17%)	▲ 7.06%	▲ 22.16%	▲ 21.52%	0.77%
FTSE/JSE Top 40 Index		(30.26%)	3.09%	16.76%	13.90%	
FLEXIBLE FUNDS (MARKET-RELATED BENCHMARKS)¹						
Balanced Plus	15-Apr-96	▲ (10.85%)	▲ 6.35%	▲ 17.86%	▲ 15.68%	1.59%
Composite Benchmark ²		(15.32%)	5.58%	15.67%	13.25%	
Market Plus	2-Jul-01	▲ (11.87%)	4.86%	17.33%	▲ 18.17%	1.39%
Composite Benchmark + 2% ²		(13.37%)	7.57%	17.84%	16.03%	inc. performance fee of 0.01%
Balanced Defensive	1-Mar-07	4.23%	X	X	6.17%	1.80%
Short Term Fixed Interest 3-month index + 3%		14.72%	X	X	13.80%	
FLEXIBLE FUNDS (INFLATION-LINKED BENCHMARKS)¹						
Capital Plus	2-Jul-01	0.80%	7.57%	▲ 14.42%	▲ 14.66%	1.10%
CPI + 4% per annum		13.26%	12.25%	10.40%	10.63%	inc. performance fee of 0.01%
SA Capital Plus	1-Apr-04	2.12%	7.02%	▲ 14.97%	▲ 14.97%	1.11%
CPI + 3.5% per annum		12.76%	11.75%	9.90%	9.90%	inc. performance fee of 0.01%
Absolute	2-Dec-02	(10.08%)	4.38%	▲ 14.99%	▲ 16.94%	1.46%
CPI + 6% per annum		15.26%	14.25%	12.40%	12.09%	inc. performance fee of 0.04%
Optimum Growth	15-Mar-99	(28.42%)	(0.40%)	8.63%	▲ 12.60%	1.28%
CPI + 5% per annum		14.26%	13.25%	11.40%	11.88%	
DOMESTIC EQUITY SECTOR FUNDS¹						
Industrial	1-Jul-98	▲ (13.88%)	2.53%	18.52%	▲ 15.75%	1.26%
FTSE/JSE Industrial Index		(18.66%)	4.09%	18.79%	10.58%	
Financial	1-Jul-98	▲ (11.56%)	▲ (2.15%)	▲ 15.36%	▲ 9.65%	1.45%
FTSE/JSE Financial Index		(21.23%)	(5.68%)	13.16%	5.79%	
Resources	1-Oct-99	(47.22%)	5.92%	▲ 18.89%	▲ 22.24%	1.16%
Domestic Equity – Resources and Basic Ind. Mean		(41.58%)	7.23%	18.20%	21.78%	
Smaller Companies	1-Apr-97	(29.05%)	(3.86%)	12.97%	10.90%	1.21%
Composite Benchmark ³		(15.86%)	2.49%	19.53%	14.50%	
FIXED INTEREST FUNDS¹						
Strategic Income	2-Jul-01	10.31%	8.33%	▲ 9.82%	▲ 11.90%	1.14%
BEASSA All Bond Index (1 – 3 years)		13.65%	8.65%	8.86%	9.87%	
Preference Share	2-Oct-06	▲ 8.83%	X	X	3.13%	0.71%
Short Term Fixed Interest 3-month Index x 0.60%		7.03%	X	X	6.23%	
Property Equity	20-Nov-00	2.30%	6.29%	21.46%	20.49%	1.44%
Domestic AA Flexible Property Mean		4.53%	6.60%	22.72%	21.31%	
Bond	1-Aug-97	12.81%	▲ 6.68%	9.15%	13.23%	0.86%
BEASSA All Bond Index		13.09%	6.31%	9.33%	13.42%	
Income	3-Apr-00	12.44%	8.41%	8.43%	▲ 10.91%	0.92%
BEASSA All Bond Index (1 – 3 years)		13.65%	8.65%	8.86%	10.58%	
Money Market	1-Oct-99	▲ 12.09%	▲ 9.94%	▲ 8.87%	9.83%	0.35%
Short Term Fixed Interest 3-month Index		11.72%	9.86%	8.83%	9.87%	
Cash Plus	1-Jul-05	▲ 12.25%	9.49%	X	8.90%	0.68%
Short Term Fixed Interest 3-month Index		11.72%	9.86%	X	9.26%	
ONSHORE INTERNATIONAL FUNDS¹						
World Equity (ZAR) Fund of Funds	1-Aug-97	▲ (23.77%)	▲ 2.38%	▲ 7.12%	▲ 10.14%	2.73%
MSCI World Index (ZAR)		(31.54%)	0.63%	5.47%	6.06%	
Global Emerging Markets Flexible	28-Dec-07	▲ (34.15%)	X	X	▲ (19.90%)	2.02%
MSCI Emerging Markets (ZAR)		(37.12%)	X	X	(27.86%)	

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[†]Benchmark Methodology – From January 2009 CPIX was replaced with a newly reweighted and rebased CPI. The benchmark is calculated using a combination of the official month-to-month CPIX numbers pre-January 2009 and the new CPI from January 2009.

The TER (total expense ratio) 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 2008, as well as the performance fee accrued over the 12 months to end December 2008. 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 TERs. For further information regarding our fee structure please contact us or visit our website.

▲ denotes outperformance. Figures of one year and less indicate percentage change. Figures of one year and more indicate the annualised growth rate.



PERFORMANCE TABLES

FUND	LAUNCH DATE	1 YEAR	3 YEARS	5 YEARS	SINCE LAUNCH
PENSION FUNDS⁴					
MARKET-RELATED BENCHMARK PORTFOLIOS					
GLOBAL BALANCED					
Houseview	1-Nov-99	▲ (17.11%)	▲ 6.08%	▲ 16.21%	▲ 15.39%
Median of AF Global Large Manager Watch		(22.62%)	4.14%	14.27%	14.14%
Managed One	1-May-96	▲ (17.08%)	▲ 6.58%	▲ 16.47%	▲ 16.12%
Upper Quartile of AF Global Large Manager Watch		(22.24%)	4.91%	15.59%	13.53%
Managed Two	1-Apr-00	▲ (16.76%)	▲ 7.61%	▲ 17.37%	▲ 15.64%
Composite Benchmark ⁵		(24.58%)	3.64%	13.00%	10.96%
DOMESTIC BALANCED					
Domestic Houseview	1-Apr-04	▲ (18.18%)	▲ 6.20%	▲ 17.21%	▲ 17.21%
Median of AF South African Large Manager Watch		(22.00%)	4.28%	15.35%	15.35%
SPECIALIST EQUITY					
Core Equity	1-Mar-04	▲ (26.29%)	▲ 5.43%	X	▲ 19.15%
FTSE/JSE Shareholder Weighted All Share Index		(34.51%)	1.37%	X	15.65%
Houseview Equity	1-May-00	▲ (27.82%)	▲ 3.77%	▲ 19.22%	▲ 16.65%
FTSE/JSE Shareholder Weighted All Share Index		(34.51%)	2.33%	15.62%	12.87%
Aggressive Equity	1-Jan-04	▲ (26.92%)	▲ 3.44%	X	▲ 17.97%
FTSE/JSE Shareholder Weighted All Share Index		(34.51%)	1.40%	X	16.01%
SPECIALIST FIXED INTEREST					
Cash Plus	1-Sep-02	▲ 12.98%	▲ 10.11%	▲ 9.17%	▲ 10.05%
Short Term Fixed Interest 3-month Index		11.77%	9.75%	8.78%	9.51%
Flexible Fixed Interest	1-Dec-04	9.55%	▲ 8.96%	X	▲ 10.27%
BEASSA All Bond Index (1 – 3 years)		13.51%	8.55%	X	8.43%
Active Bond	1-Aug-00	▲ 13.29%	▲ 7.28%	▲ 9.95%	▲ 13.58%
BEASSA All Bond Index		12.45%	6.21%	9.28%	12.91%
INFLATION-LINKED BENCHMARK PORTFOLIOS					
Global Absolute	1-Aug-99	(4.04%)	9.28%	▲ 17.52%	▲ 17.84%
CPI + 7% per annum		17.21%	15.15%	13.39%	13.80%
Domestic Absolute	1-Apr-02	(3.33%)	9.23%	▲ 17.88%	▲ 18.65%
CPI + 5% per annum		15.21%	13.15%	11.39%	11.44%
Capital Preserver	1-Oct-05	(4.85%)	7.39%	X	9.85%
CPI + 6% per annum		16.21%	14.15%	X	13.49%
Medical Aid Absolute	1-May-04	2.27%	10.16%	X	▲ 16.33%
CPI + 4.5% per annum		14.10%	12.86%	X	10.76%
INTERNATIONAL FUNDS⁶					
Global Equity (US\$)	1-Jul-00	▲ (39.09%)	▲ (12.79%)	▲ (1.50%)	▲ (2.46%)
MSCI World Index (US\$)		(42.19%)	(13.29%)	(3.00%)	(4.29%)
Global Equity (ZAR)	1-Jul-00	▲ (27.88%)	▲ 1.20%	▲ 7.09%	▲ 1.47%
MSCI World Index (ZAR)		(31.54%)	0.63%	5.47%	(0.43%)
Global Equity Alternative Strategy (US\$) ^{6,7}	1-Aug-96	▲ (19.80%)	(4.85%)	▲ 1.24%	▲ 7.99%
MSCI World Index (US\$)		(42.19%)	(13.29%)	(3.00%)	1.77%
50% MSCI World Index + 50% USD Cash (US\$)		(25.30%)	(3.84%)	0.93%	3.26%
Global Equity Alternative Strategy (ZAR) ^{6,7}	1-Aug-96	▲ (5.02%)	10.41%	▲ 10.08%	▲ 14.61%
MSCI World Index (ZAR)		(31.54%)	0.63%	5.47%	8.01%
50% MSCI World Index + 50% USD Cash (ZAR)		(12.41%)	11.22%	9.52%	9.51%
Global Bond (US\$)	2-Jul-03	(6.29%)	4.76%	4.20%	5.12%
Citigroup World Government Bond Index (US\$)		(3.75%)	7.65%	4.63%	5.51%
Global Bond (ZAR)	2-Jul-03	9.29%	20.95%	12.94%	9.67%
Citigroup World Government Bond Index (ZAR)		13.98%	24.93%	13.75%	10.44%

- Figures are quoted from Micropal as at 31 March 2009 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.
- Benchmark for the Balanced Plus and Market Plus funds comprises: 63% Equity (Capped All Share Index), 22% Bonds (All Bond Index), 10% Foreign (60% MSCI Equity gross, 25% JP Morgan Global Bond Index, 15% JP Morgan USD 3-month Treasury Bill) and 5% Cash.
- Benchmark for the Smaller Companies fund is a market cap weighted index of the FTSE/JSE Small and Mid Cap Indices.
- Figures are quoted from the Independent Retirement Fund Survey as at 28 February 2009.
- Benchmark for Managed Two comprises 60% Equity (Capped All Share Index), 20% Bonds (All Bond Index), 15% Foreign Equity (MSCI world index) and 5% Cash (Alexander Forbes Short Term Fixed Interest Index).
- Figures quoted are to 28 February 2009, with estimates for March.
- This fund is available to institutional investors only. An estimate was used for March's fund performance.

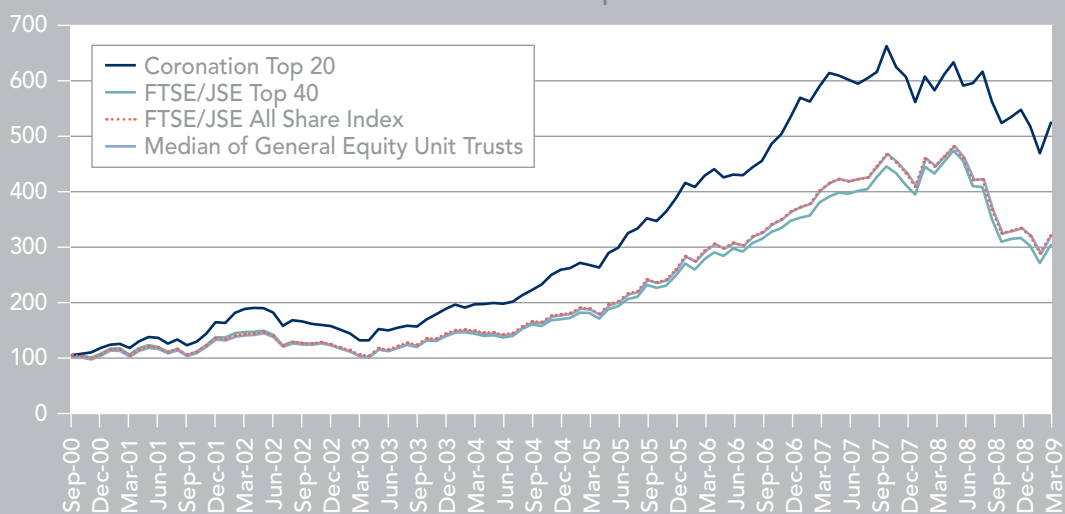
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