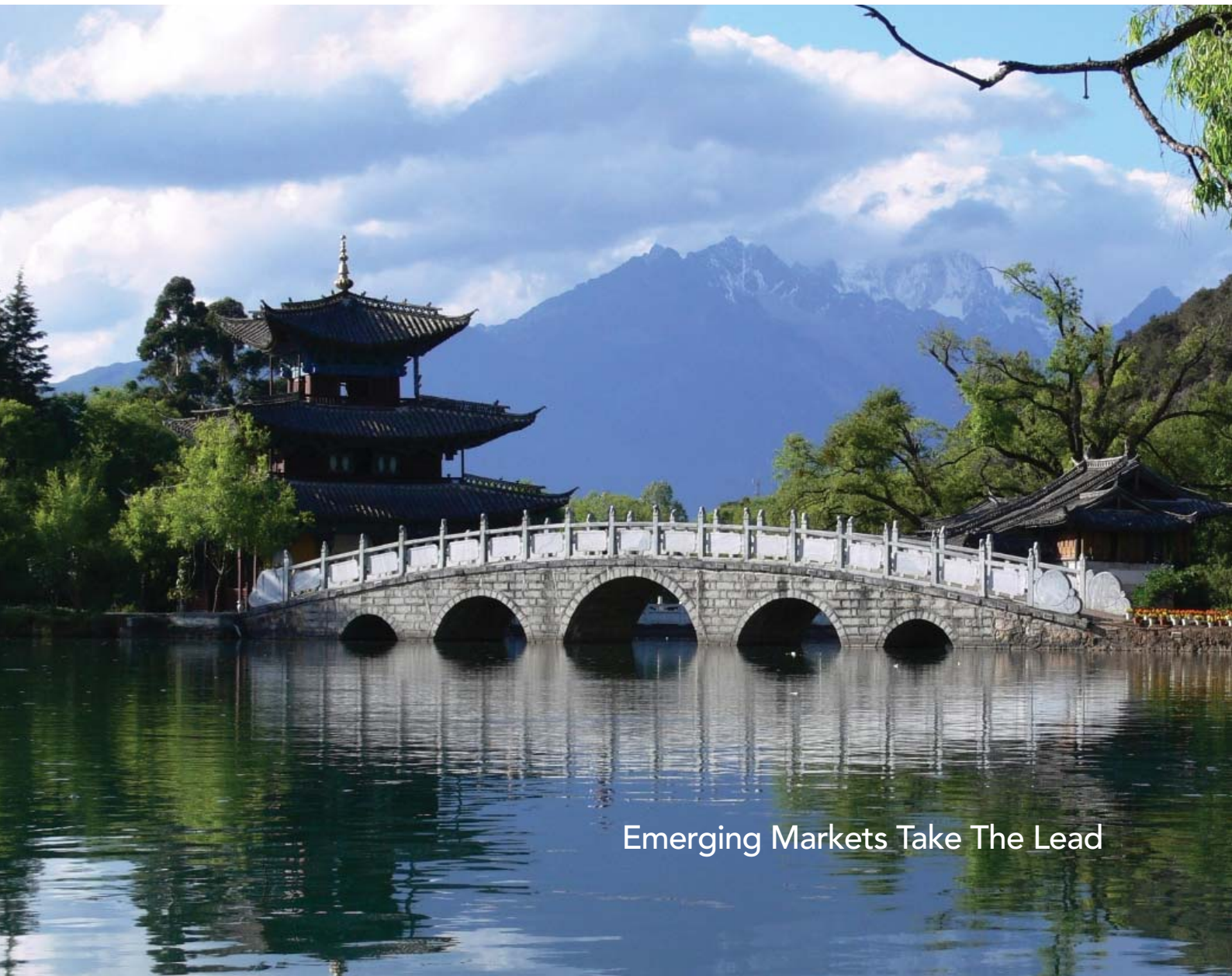


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The Coronation Fund Managers Quarterly



Emerging Markets Take The Lead

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July 2009

CORONATION 
FUND MANAGERS

Emerging markets take the lead

Investing in global emerging markets is a growth story still in its infancy

by GAVIN JOUBERT

When we launched our first Coronation Global Emerging Markets (GEM) fund in late December 2007 our logic for doing so was two-fold. Firstly, we held the view that the prospects for emerging markets over the next 5 and 10 years were very exciting and secondly, our research led us to the conclusion that most GEM managers hugged the index and in so doing produced index-like returns. Today, we are as excited about the long-term prospects for emerging markets and the returns that are available from careful investment in these markets as we are about our prospects of outperforming both the index and the host of GEM managers based in London or New York. Since the GEM funds were launched we have outperformed the index (MSCI Emerging Markets) by north of 10%.

The investment case for emerging markets can perhaps be summarised by a few key observations. Firstly, 85% of the world's population live in emerging markets (in fact half of the world's population live in five countries: China, India, Indonesia, Brazil and Russia), 30% of the world's GDP comes from emerging markets and these markets make up 20% of the world's market capitalisation. Secondly, emerging markets have low levels of debt at the country, corporate and consumer level – this is in sharp contrast to most first world countries. With this backdrop, it is our view that emerging markets' share of both global GDP and market capitalisation will increase over time as emerging markets continue to grow significantly faster than those of the first world. This will be driven by commodities and exports (over the long term) as well as a significant increase in domestic consumption as urbanisation increases and disposable incomes rise concomitantly (over both the short and long term).



GAVIN JOUBERT heads up the Coronation Global Emerging Markets team and has more than 10 years' investment experience. He has managed a wide range of South African portfolios over the past several years, with a focus on absolute return portfolios.

Whilst emerging markets have increased by 60% in US dollars from their bottom late last year, it must be remembered that their decline during most of 2008 was significant. In addition to this, the earnings of most GEM companies, particularly the domestic-focused companies, have continued to grow (resulting in P/E multiple contraction), which is again in sharp contrast to your average first world company. In fact, the only first world companies that are managing to grow their earnings in the current tough global economic environment are doing so because of their emerging markets' exposure! Our GEM team has already been on two research trips this year to China, and our key observation is that if one didn't know better, one would not conclude that the world is in the midst of the worst global recession of the past 50 years. Life in China goes on, with increased government-led infrastructure spending and domestic consumption largely offsetting the decline in exports.

The sharp rally in emerging markets has been led by the more cyclical, lower-quality stocks (commodities and financials), and the higher-quality stocks have typically lagged. Our GEM funds are invested mainly in the latter area, meaning that we are still seeing significant upside to most of our holdings. As a reference point, the one year forward P/E of our portfolios, weighted by position size, is currently 12. We believe this is very attractive given the quality of the businesses that we own and the rate at which we believe these businesses will be able to grow their earnings over the next five years.

One of the key benefits of a global emerging markets universe (vis-à-vis a universe restricted to South African companies) is the sheer size of that universe and therefore the increased number of potential investment opportunities. Whilst we are not able to detail every holding in the portfolios, we share with you a flavour of the companies we are currently finding attractive.

The largest position by industry is in GEM mobile telecommunications companies. We are invested in several mobile operators and find the low penetration rates in emerging markets combined with P/E multiples around 10, very attractive. More recently we have been adding to our position in China Mobile. China Mobile is the dominant mobile operator in China (over 70% market share), a country which is still only 50% penetrated, meaning only half of the population has a mobile phone. To provide some perspective, first world countries are approximately 130% penetrated, which means that every individual owns 1.3 phones. The market is fixated on imminent competition and possible regulatory intervention that will be detrimental to China Mobile, and as a result the share price of China Mobile has been moving sideways for several months. In our view it will be very difficult to dislodge China Mobile as the dominant operator and additionally we can model the sensitivity of earnings to various regulatory outcomes. Our conclusion is that on an 11 P/E (9 P/E after adjusting for the company's significant net cash position which makes up 15% of its current market capitalisation), a whole lot of bad news is in the price, and if one has a long-term horizon then China Mobile offers a very interesting investment opportunity today.

The second largest area by industry is in beverages. The funds own both pure GEM beer/Coke companies (like Femsa in Mexico and Anadolu Efes in Turkey) but also own stakes in many of the global beer companies, who have operations in both emerging markets and the first world. The three that we particularly like are Carlsberg, Heineken Holding and Anheuser-Busch Inbev – all have large emerging market businesses and all are trading on P/E or Free Cash Flow multiples in the 10-12 range one year out. Carlsberg may be headquartered in Denmark, Heineken in the Netherlands and AB Inbev in Belgium, but all three generate a large portion of their profits from emerging markets, ranging from 45% to 65% of earnings. We are interested in accessing all the good things that happen in emerging markets over time (like rising disposable income and increased beer consumption in this case) and are less concerned about where a particular company may be headquartered.

Gazprom is a Russian gas company and owner of the largest gas reserves in the world; a large part of which is supplied to Western Europe. It is also, in our view, one of the cheapest stocks in the world and worth at least double the current share price. With a long-term oil price of \$70 Gazprom is currently trading on a P/E of 4. Russia undoubtedly has risks, but this valuation

level is incredibly attractive in our opinion. In Russia we also like the supermarket food retailers, Magnit and X5 Retail. Magnit in particular is very interesting – the company focuses on small, rural towns in Russia (where the only existing supermarket is a drab soviet-style shop) and has grown its store base from 600 to almost 3 000 over the past five years. Needless to say, once Magnit enters a new town, with its new bright supermarkets and attractive pricing due to economies of scale, the days of the soviet-style store in that town are numbered.

We are also finding good value in Brazil, of which Anhanguera is but one example. Anhanguera is a Brazilian private education company which is rapidly consolidating what is a fragmented industry. Like many other emerging markets, the Brazilians regard high-quality education as a priority and as a result the industry is growing at a rapid rate. We believe that Anhanguera, through both organic and acquisitive growth, can maintain 25%+ growth rates for some years to come.

Whilst the re-rating of emerging markets has been sharp, we remain very excited about the many investment opportunities we see. Emerging markets, in our view, are not a one-year story but a five- to ten-year story and the journey is still in its infancy.

Coronation manages two US dollar-denominated institutional portfolios, namely the GEM Equity Fund and the GEM Opportunities Fund (long/short equity). We also manage a rand-denominated unit trust, the Coronation GEM Flexible Fund, which is available to individual investors. For more information please contact us on 0800 22 11 77. 

Investing for income and growth

A key decision taken today can make all the difference to the future

by PIETER KOEKEMOER

South Africans retiring at age 65 can expect to live for another 20 years (and half will live longer). Retirees therefore require an income from their investments over an extended period of time. When faced with the need to maintain a certain level of income without depleting capital over two or three decades, investors have to make complex trade-offs to ensure that they achieve their goals.

The key decisions include:

- Constructing a portfolio of assets that can limit the variability of returns from year to year while maintaining adequate protection against the eroding effects of inflation; and
- Deciding on a level of income high enough to fund an acceptable living standard, but low enough to ensure sustainability of this living standard over time.



PIETER KOEKEMOER is head of the personal investments business. His key responsibility is to ensure exceptional client service through a combination of appropriate product, relevant market information and, above all, strong investment performance.

Coronation offers three unit trust funds aimed at investors requiring both income and growth from a single portfolio. The funds each have a different risk budget and return target to ensure that we provide options to match the needs of most income-seeking investors. The funds are the Coronation Strategic Income, Balanced Defensive and Capital Plus. See their key characteristics in Figure 1 below.

The risk of not taking enough risk

The importance of the key decisions is most acute for retired investors depending on a living annuity for some, or all, of their retirement benefits. It may intuitively sound sensible to avoid all risk by investing in a very conservative investment, such as a money market fund. Money market funds only hold short-term debt instruments issued by banks, large companies and the government, and are considered the safest investment option offered by fund managers. Since 2000, the money market funds returned 9.8% p.a., with the highest return of 12% in 2003 and the lowest return of 7% in 2005. An investor requiring a before

FIGURE 1

	Strategic Income	Balanced Defensive	Capital Plus
Objective	To produce a medium-term return in excess of money market funds and protect capital over six months	To produce a medium-term return in excess of inflation plus 2.5% p.a. and protect capital over 12 months	To produce a medium- to longer-term return in excess of inflation plus 4% p.a. and protect capital over 12 months
Launch date	2 July 2001	1 February 2007	2 July 2001
Historical return p.a.	11.7%	Track record too short to be meaningful	14.7%
Historical downside risk p.a.	1.4%		4.4%
Maximum exposure to risky assets	20.0%	40.0%	60.0%
Maximum exposure to local ordinary shares	0%	30%	50%
Maximum exposure to offshore assets	0%	20%	20%

Return and risk information are based on data provided by Morningstar and represent data for the period July 2001 through June 2009. Risky assets refer to domestic equities, global equities and listed property, and in the case of Strategic Income, preference shares.

tax income equal to 6% or 7% of the value of their capital may rightly wonder whether it is worthwhile to take any more risk in the hope of earning higher returns.

The problem with this approach is highlighted in Figure 2. If you had invested R1 million in a money market fund eight years ago and drew an annual income of R70 000 (ie 7% p.a.), adjusted for inflation annually, your investment account would reflect a balance of R956 300 today. However, after adjusting the value of your capital for the eroding effect of inflation, your purchasing power has in fact declined by more than 40% to R569 800. Another way of looking at this is to increase the initial income level by inflation and express this as a percentage of the current nominal value of your investment. In our example it means that you need to draw R116 850 in 2009 to have the same purchasing power as R70 000 had in 2001: more than 12% of your current nominal account balance of R956 300. Even if you have reduced the income level to only 3% of your initial capital value, the purchasing power of your portfolio would still be nearly 15% less than what it was only eight years ago.

We can, with a high degree of certainty, conclude that money market funds are not a suitable solution for investors requiring income over the medium to longer term.

The benefit of accepting a lower drawdown rate

It is fairly obvious that taking a lower level of income will make your portfolio last longer. A further benefit is that a low drawdown rate makes it possible to protect capital against inflation without taking significant amounts of risk. Figure 2 indicates that the Coronation Strategic Income Fund preserved the purchasing power of capital over the last eight years at a drawdown rate of 3%, adjusted for inflation each year. Strategic Income focuses on the yielding asset classes, and specifically excludes more volatile ordinary shares and foreign assets. The lowest calendar-year return the fund achieved in the past eight years was an attractive 7.8% in 2007, directly as a result of this conservative approach. However, the downside of this conservatism is that the fund has not managed to protect after-inflation capital at higher initial income levels.

While Strategic Income was a significantly more efficient investment option than a money market fund for investors seeking both income and growth, the purchasing power of capital was eroded at income withdrawal rates above 3% p.a. As an example, if the initial income level for an investment in Strategic Income was set at 7% in 2001, the current required drawdown rate to provide the same level of income adjusted for inflation is 9.9% as shown in Figure 3.

FIGURE 2: VALUE OF R1 MILLION INVESTED EIGHT YEARS AGO, GIVEN DIFFERENT REAL INCOME RATES

Investment option	No income		3%		5%		7%	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
Money Market Fund	2 055 700	1 230 100	1 442 500	861 500	1 174 700	700 800	956 300	569 800
Strategic Income Fund	2 430 400	1 370 500	1 788 000	1 018 200	1 456 300	828 300	1 185 600	673 500
Capital Plus Fund	3 004 300	1 713 000	2 108 500	1 257 900	1 717 100	1 023 300	1 397 800	832 000

FIGURE 3: CHANGE IN INCOME LEVEL BETWEEN 2001 AND 2009 AFTER ADJUSTMENT FOR INFLATION

Initial income per R1 million invested in 2001	30 000	50 000	70 000
Initial income as % of initial capital	3.0%	5.0%	7.0%
Current income adjusted for inflation	50 079	83 465	116 850
represents % of nominal value if invested in			
Average Money Market Fund	3.5%	7.1%	12.2%
Coronation Strategic Income Fund	2.8%	5.7%	9.9%
Coronation Capital Plus Fund	2.4%	4.9%	8.4%

Source: Coronation Research

Calculations are based on return information provided by Morningstar and I-Net Bridge for the period June 2001 to May 2009.

Nominal values refer to the actual returns achieved assuming the given rate of real income, while real values represent the nominal values adjusted for inflation.

Real income rates assume that the level of income taken on a monthly basis must increase by the official rate of inflation as provided by Statistics South Africa.

Balanced Defensive is excluded as its track record is too short to make meaningful analysis possible (launched February 2007).



We can therefore conclude that a low-risk investment portfolio with no equity exposure is only suitable for investors who can afford to draw very low rates of income, or who are only investing for the short to medium term.

The need for controlled exposure to risky assets

The only approach, in our view, that is appropriate for securing a long-term real income, without significantly eroding capital, is to introduce well considered exposure to risky assets such as shares and foreign investments within a robust risk management framework. The Coronation Capital Plus and Balanced Defensive funds are managed to support moderate to higher real income targets while controlling the risk of capital loss in the short term.

The performance track record of Balanced Defensive, managed with a smaller risk budget and therefore a lower expected volatility than Capital Plus, is too short (launched in February 2007) to enable a meaningful review of its historical real income results.

For a lump sum investment made in 2001, Capital Plus comfortably protected inflation-adjusted capital at a 5%-6% real income rate and showed only marginal deterioration in the real capital value at a 7% real income rate, as can be seen in Figure 2. However, the portfolio did not manage to preserve purchasing power at withdrawal rates of 8% or higher. This is a direct result of recent highly unusual market events, specifically in the first half of 2008. A real income rate of 9% with full protection of the purchasing power of capital was achievable until the end of 2007.

The recent inability to achieve the dual objectives of a very high real income and full preservation of capital is a result of the fund's historical risk budget. As a general rule, portfolios with more risky asset exposure (mostly equities but also property and currency) will have higher volatility. Volatility has a big impact on the real value of capital in short-term periods where the fund produces flat or negative returns, because the eroding effect of income drawdowns, fees and inflation continue relentlessly. A period with higher than expected inflation and very poor market returns, as experienced in 2008, presents the worst possible environment for investors seeking to combine income and growth objectives.

Because the events of 2008 were so extreme, the 20 to 30-year data that we used in setting the risk budget for Capital Plus did not prevent a decline of $\pm 6\%$ over the preceding 12 months by the end of October 2008. This worse than expected performance was primarily the result of the following:

- A significant and unexpected increase in the volatility of listed property investments, where the variability of returns started behaving more like equities than bonds.
- Stock selection reasons. In late 2007 and early 2008 the local market was skewed by severe overvaluation of resource shares, which represented the most significant bubble since technology in 2000. This led to an indiscriminate sell-off in all local assets (including financial and industrial shares, listed property and bonds) in favour of ever-increasing investment levels in resource companies. As a result of our concern about valuation levels, Capital Plus did not own any resource shares through this period, resulting in poor short-term results; a view that was vindicated in the second half of 2008.
- Base effects. Returns are never uniformly distributed and in a 12-month period where both returns and volatility were significantly ahead of the long-term average, the substitution of one month for another in the historical return series often had a significant impact.

Capital Plus recovered very well from these setbacks. It returned a positive 7% in the second half of 2008 when the local share market lost 35%, and ended the year with a 1% positive return compared to a share market decline of 24%. The fund has returned 14.5% over the most recent 12-month period. The recovery in performance was the result of a vindication of our view on resources, an effective hedging strategy, and a strong reversal in the prices of domestic assets as investment fundamentals prevailed.

Capital Plus, seen from the perspective of investors who require higher real income, 'recovered' from a similar event once before in 2002/03. At the time, the portfolio suffered a short-term loss as a result of the unusual combination of a weak equity market and rand strength. Foreign assets are included in the fund based on the opinion that international exposure adds strategic portfolio benefits and protection against potential rand weakness. We adjusted risk rules post this negative short-term experience by, for example, using cheap and effective currency hedging tools which had subsequently become available, without removing the fund's ability to achieve decent gains in positive markets. Within 18 months, Capital Plus recovered all losses in real capital value even after taking into account a 9% inflation-adjusted drawdown rate.

We have again revised the fund's risk control framework to take the lessons of 2008 into account, introducing an overall cap of 60% on exposure to risky assets (domestic equities, global equities and listed property).

Prospective market conditions are supportive for funds with bigger risk budgets

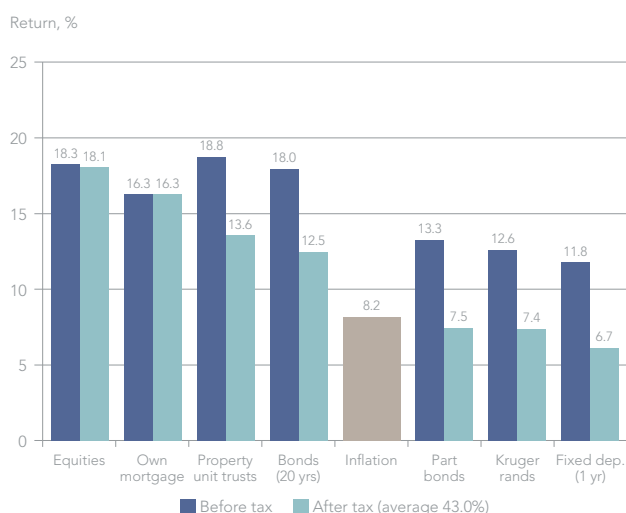
Based on our outlook for the various asset classes we think that portfolios with bigger risk budgets are better placed to deliver the required rates of return to allow investors to comfortably draw a real income in the 7%-8% range.

Yielding assets such as bonds and property have performed exceptionally well over the last 20 years (see Figure 4 below), matching or even exceeding equity performance on a pre-tax basis. This was primarily a result of a structural downward shift in inflation (Figure 5) that is unlikely to be repeated over the next decade. The exceptional performance of the bond market during the 1990s and 2000s is put in perspective in Figure 6. Note that these are the only two decades in the last 50 years where bond performance matched equity performance. In more stable or rising inflation environments, equities tend to perform much better than bonds, as was the case in the 1960s, 1970s and 1980s.

It is therefore justifiable in our view that funds with larger risk budgets are considered by investors looking for a combination of current income and growth. It should however be emphasised that the more expected volatility increases, the higher the risk that high real income rates (above 8% p.a.) may be problematic.

FIGURE 4: BONDS AND PROPERTY MATCH EQUITIES

20-year average annual total returns – before and after tax (1989–2008)



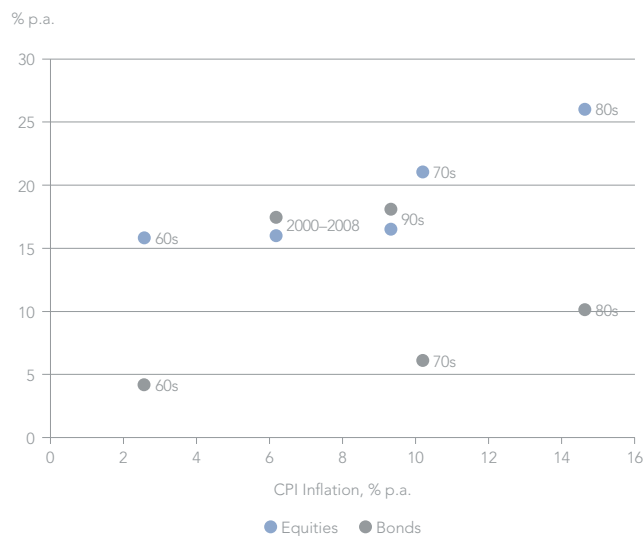
Source: JP Morgan Chase

FIGURE 5: ANNUALISED INFLATION FOR THE PAST 22 YEARS



Source: I-Net Bridge


FIGURE 6: RETURNS AND INFLATION



Source: JP Morgan

Conclusions

- Money market funds are designed for very short investment periods, and are rarely appropriate for investment terms exceeding 2-3 years. These funds cannot keep pace with even moderate inflation, and the purchasing power of capital deteriorates substantially over relatively short periods even at low real income levels (3%-5%).

- Managed income funds such as Strategic Income are more efficient than money market funds, but have historically preserved long-term purchasing power only at very low real drawdown rates (3%). If your investment horizon is any longer than five years and your income requirement is above 5%, it is probably not the right mandate for your needs.
- Capital Plus comfortably supported a real income of 5%-6% and based on expected through-the-cycle returns, where the impact of a rare year such as 2008 is diminished, should in future also be able to support a real income of 7% without eroding real capital. Recent volatility in this fund detracted from its historical performance in the context of an investor requiring a stable real income, but with revised risk limits and based on our asset class outlook we remain convinced that its prospective results will be very competitive.
- Balanced Defensive was launched in 2007 in recognition of the need to provide a fund with a more conservative risk budget and therefore lower expected volatility when compared to Capital Plus. This fund is specifically aimed at investors with moderate real income requirements. While it is too early to fully evaluate the track record of this fund, we are very pleased with an exceptionally low downside deviation of 0.82% through the '100-year flood' of 2008. To date, the fund produced positive returns over all rolling 12-month periods since launch. 

■ What is a living annuity, and when is it appropriate?

Pension and retirement annuity fund members are legally required to convert two-thirds of the value of their retirement benefits into an annual income at retirement. It is often also the most tax-efficient strategy for provident fund members to use part of their lump sum payout at retirement to buy a regular lifetime income. This event is typically referred to as purchasing a compulsory annuity. Two main types of compulsory annuities are available: Guaranteed Annuities (also called underwritten) and Living Annuities.

A living annuity is a flexible product, allowing the investor to

- construct a portfolio from a variety of underlying investment options such as unit trusts;
- draw any level of income between legally defined limits, currently set at a minimum of 2.5% and a maximum of 17.5%; and
- bequest any unused assets to chosen beneficiaries at death.

These features can be contrasted with an underwritten annuity, where the investor pays an upfront premium to a life office in exchange for a guaranteed fixed or growing annual income payable for life. The premium paid should be seen as an expense incurred to secure protection against the uncertainties of life – an income will be paid however long you may live, but once the annuity is bought, the capital spent on its purchase is no longer part of your estate.

Living annuities therefore provide the advantages of flexibility, choice and the retention of ownership, but create

the responsibility to make sound decisions and potentially expose the investor to longevity risk. It is a sophisticated product typically aimed at investors with significant retirement capital or access to good financial advice. Many investors decide to combine the security of an underwritten annuity with the heritability and flexibility of a living annuity by using them in combination.

■ The impact of taxes

Discretionary investments attract taxes on the returns earned. Income tax is payable, at the investor's marginal rate, on all interest, rental and foreign dividend income earned. Local dividend income is currently tax-free in the hands of the recipient, while all capital gains will attract capital gains tax when the investment is realised. Discretionary investors would prefer to earn returns from more tax-efficient sources such as dividends and capital gains, as this leads to a more tax-efficient outcome. Lower and moderate risk funds with some equity exposure such as Capital Plus should therefore be more attractive to discretionary investors. As an example, over the last eight years a money market fund converted only 75% of the total pre-tax return earned into an after-tax return for an investor paying the maximum 40% marginal tax rate, while Capital Plus converted 93% of the pre-tax return.

Living annuity investments do not attract taxes on the returns earned, but rather on the level of income withdrawn. A living annuity investor is indifferent between the source of returns from a tax perspective, as a percent of interest earned is equal to a percent of dividend received or capital gain achieved. A living annuity is therefore a very efficient structure for holding yielding assets such as bonds and listed property.

Avoid equities at your peril

by KARL LEINBERGER



KARL LEINBERGER is chief investment officer and a member of the executive committee. He currently manages the Coronation Equity and Coronation Balanced Plus Funds as well as the Coronation Houseview Portfolios.

Investors around the world have taken fright after a brutal year in 2008 – the second worst year in recent market history. The financial media has been full of articles predicting financial Armageddon, a second great depression from which the world would take decades to recover.

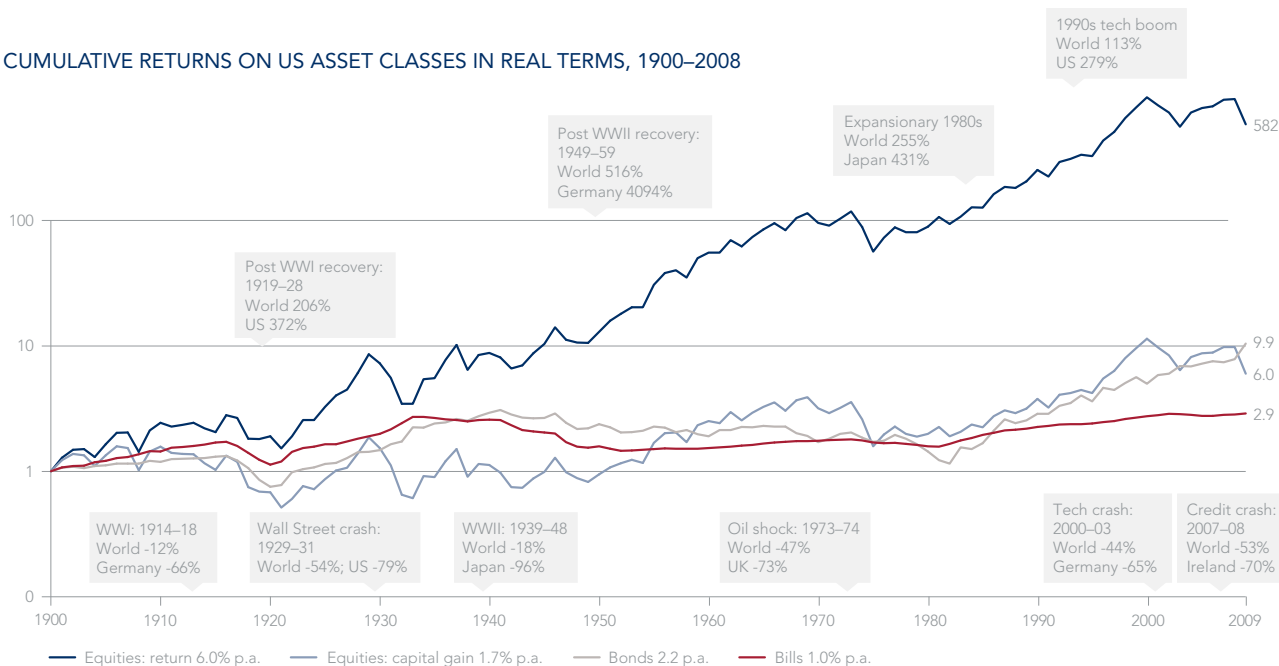
We argued in the January *Correspondent* that this was not the time to run from equities; that in fact global equities presented the buying opportunity of a lifetime. Although equities sold off further in January and February, they have since rallied aggressively. Off the February bottom, the MSCI World Index is up 25%, with emerging markets up 52%. Many clients have asked how markets can rally as strongly as they have when the globe is in recession. We think it's because:

- Markets always turn before the underlying economy, usually when everyone least expects it.

- The 'fear trade' became so widespread that almost everyone was out of the market. US money market mutual funds (yielding close to zero) recently became larger than equity mutual funds for the first time in history. When so much cash is sitting on the sidelines and everyone is positioned for further weakness, markets can quite literally climb a 'wall of worry'.

We believe that it is very dangerous for investors to sit with too much exposure to cash. Any analysis of any major market in the world over any meaningful period will show that equities are the only way to protect the real value of your capital. The following two charts demonstrate how the real returns of equities in the world's major markets have dwarfed other asset classes over the very long term (1900-2008):

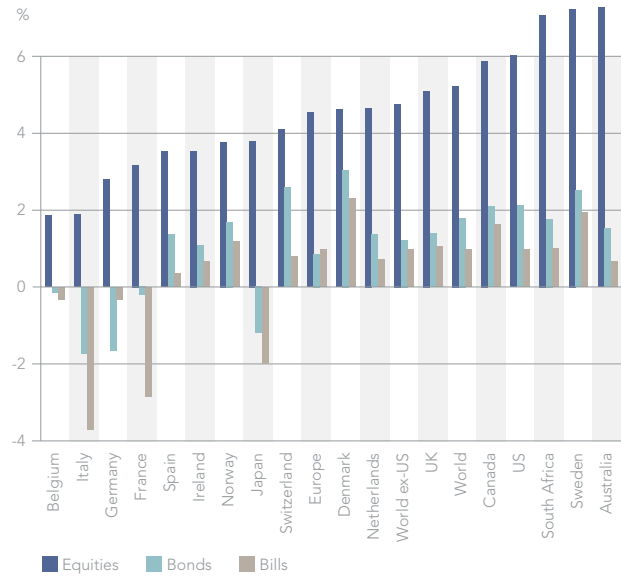
CUMULATIVE RETURNS ON US ASSET CLASSES IN REAL TERMS, 1900-2008



Source: Elroy Dimson, Paul Marsh and Mike Staunton, *Credit Suisse Global Investment Returns Sourcebook 2009* and *Triumph of the Optimists, Princeton University Press, 2002*



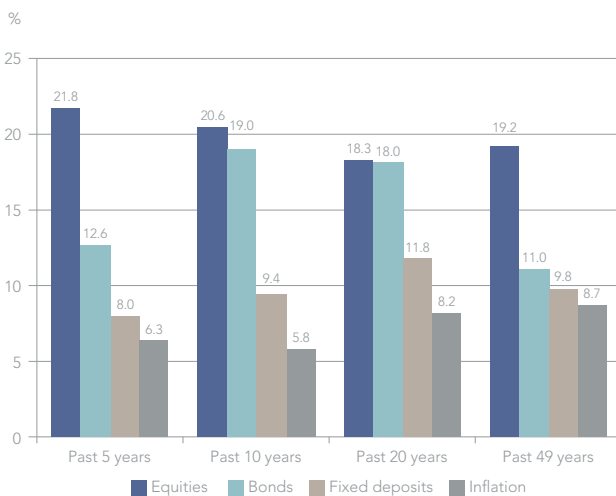
REAL RETURNS ON EQUITIES, BONDS AND BILLS INTERNATIONALLY, 1900–2008



Source: Elroy Dimson, Paul Marsh and Mike Staunton, Credit Suisse Global Investment Returns Sourcebook 2009 and Triumph of the Optimists, Princeton University Press, 2002

The following table analyses the return of equities, bonds and cash in South Africa over slightly less daunting (but still meaningful) periods. One can see quite clearly that equities have strongly outperformed all other asset classes over all meaningful periods throughout the period 1960-2008.

ARITHMETIC AVERAGE ANNUAL RATES OF RETURN – BEFORE TAX



Source: JP Morgan Chase

The events of the last year have increased our conviction that markets cannot be timed. We will continue to do our best to cut out the noise and take the right long-term view. The road may well be rocky, but we are convinced that an excessive allocation to cash at this point in the cycle is a mistake. It is critical that investors don't lose their faith in equities in these volatile times. As a reminder, our reasons for saying this are:

- Unprecedented stimulus (fiscal and monetary) has significantly reduced the risk of financial Armageddon.
- Companies have, in general, responded to the downturn quickly by cutting costs and bolstering their balance sheets (where necessary).
- Valuations of equities range from compelling (offshore equities) to attractive (local market).
- The last 12 months have shown how difficult it is to time markets and how easy it is to be left behind when markets do recover.
- Unprecedented monetary and fiscal stimulus could well result in higher inflation in the years ahead. While inflation is not good for any asset class, equities will always be the best way for investors to preserve the real value of their capital.

The good news is that it is not too late. Notwithstanding the good performance of equities so far this year, equities are still our favoured asset class. 🇿🇦

Choose your cliché

by CHANTAL VALENTINE

The current economic landscape begs the use of a variety of clichés, metaphors and hackneyed phrases. If I may be permitted to mix my metaphors, I would summarise it thus: there is a light at the end of the tunnel, but it is still a rocky road ahead.

The 'decoupling' thesis has been sorely tested as emerging markets have shown significant downgrades to growth following the contraction in developed countries' economies. South Africa has joined its counterparts in the fallout, which has come through a variety of linkages. The principal link to the real economy is via the export sector and, as noted in the last *Corospondent*, South Africa has seen a drop-off in exports, passing through in the form of some spectacular declines in the manufacturing sector. While it may be cold comfort that a number of our emerging market peers have suffered similar or worse falls, it does highlight that the recent improvement ('green shoots' – not good, but better) in global manufacturing data should feed through to South Africa soon. As with a number of other countries, South African production is also poised to benefit as new orders improve against a background where there has been a massive drawdown in inventories. In other words, much of the demand to date has been met by using existing inventories rather than new production; we are approaching an inflection point where inventories are now so low that production itself will have to pick up soon.

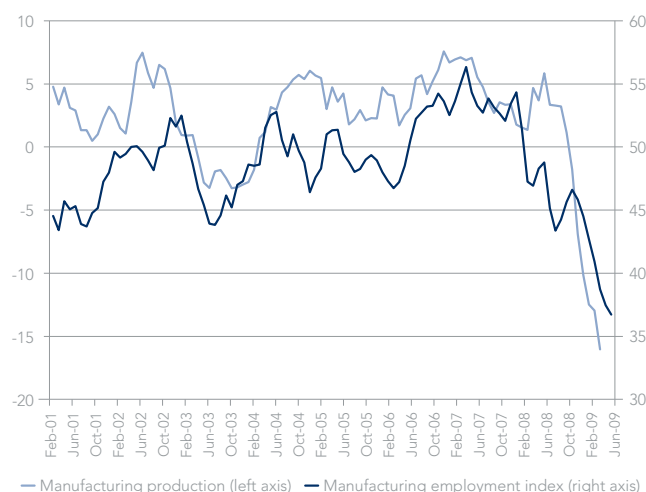
The other main casualty of the global recession has been consumer spending, albeit also reinforced by the lagged effects of the interest rate hiking cycle in place till late last year. Wealth effects have suffered from the fallout in global markets, and readers will no doubt have seen a number of newspaper articles talking about how South Africa's rich have become less so, with associated reports of luxury yachts, aircraft, etc going under the hammer. For the average South African consumer, while wealth effects may not be as important in spending, jobs are – and the employment data have shown



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.

a substantial decline more recently. These too would be expected to start improving again as the global 'green shoots' and local production begin to take root, but it will most likely be a gradual and still painful process.

MANUFACTURING PRODUCTION (% Y/Y) VS. EMPLOYMENT INDEX (BOTH SMOOTHED)



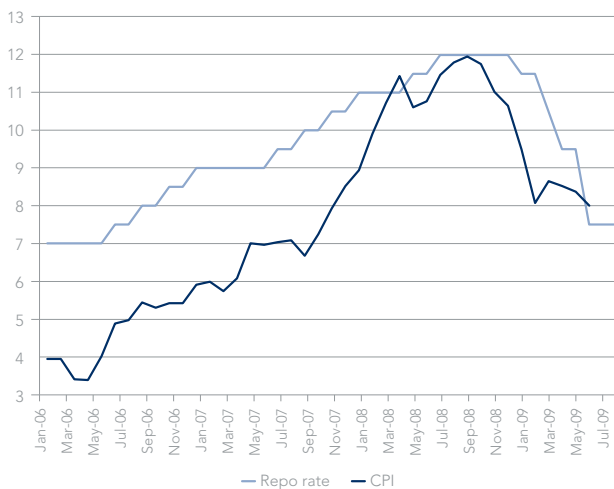
Source: I-Net Bridge

Another way in which South Africa is mirroring the global picture is the fallout on the fiscus. While our deficit for the current fiscal year is not expected to be anywhere near the double-digit numbers being recorded in countries like the US and UK, which are dealing with the effects of massive banking sector bailouts as well as recession, the slowdown in economic activity locally is having a dire impact on government revenues. The Finance Minister has already noted that in current circumstances cutting back on expenditure is not desirable, so the reduction in revenue will end up being reflected directly in the budget deficit. Although we expect that revenue trends will be on an improving trend through the remainder of the fiscal year as the economy bottoms out and starts improving, it is clear that the

deficit for this fiscal year (ending March 2010) will end up well in excess of the 3.8% forecast in February – very likely something with a 5% big figure on it.

As the government supports the domestic economy via more expansionary fiscal policy, so too has the SA Reserve Bank (SARB) played its part this year. It continues to approach inflation targeting in a flexible way, so that even as inflation has remained above the target – and indeed consumer price inflation has surprised the market on the upside for each of the five releases so far this year – the Monetary Policy Committee has cited the slowdown in growth as justification for reversing almost the entire rate hiking cycle (which began in June 2006) in the space of six months. Note that this is despite the fact that inflation is still more than double its lows at the previous nadir of the rate cycle. Inflation is certainly expected to fall further from here, but given that monetary easing has been heavily front-loaded, the prospects for further interest rate falls from here are probably very limited.

SA REPO RATE VS. CONSUMER INFLATION



Source: I-Net Bridge

Once we are focused on a return to growth, the question is what that growth is likely to look like. The recovery is likely to take a somewhat uneven path, with the first indicators of ‘real growth’ very likely to show a strong rebound – mainly because the base is so low. This first bounce (locally and globally) may well be relatively ‘low quality’ in nature, ie in terms of redressing, for example, the inventory drawdown. The growth path may be a bit bumpy and somewhat uneven, but within a couple of years we should return to pretty reasonable growth rates. But – and this is a big but – we are unlikely, in this author’s opinion, to

return sustainably to the kind of strong growth rates that we had become used to in the boom times.

Part of the reason for that is that some of the factors underlying the boom were unsustainable. One can argue that, for example, China’s strong demand for commodities is not going away. But it is less easy to argue that the flood of liquidity that we saw associated with the credit boom and search for yield will re-appear, especially as the world moves towards tighter regulation of banks, hedge funds and so on. Even if investors are not twice shy, regulators may prevent them from being bitten again.

Another reason is the hangover that follows the party, in this instance taking the form of ballooning fiscal deficits. While many have readily accepted the need for budget deficits to blow out currently to deal with banking sector bailouts and countercyclical efforts to alleviate the slowdown, there is also the knowledge that budget deficits cannot remain big forever. Large deficits would put pressure on bond yields, which in turn would derail recovery, especially in countries like the US where bond yields influence many lending rates throughout the economy (including mortgages). Inflation-targeting central banks would also not be happy with the consequences of continued large deficits, especially in conjunction with their own – significant – monetary easing of the past year. So once the hump of the crisis is over, we will see the next buzzword – ‘exit strategies’ – coming into play. Better growth will enable governments and central banks to start removing the fiscal and monetary easing currently in place, but obviously that will also limit the extent to which we can expect to see growth rates move to the upside in the next few years.

For South Africa, this scenario also means a return to better growth, but off the highs of the past few years. Restrained global growth will mean that while exports pick up, growth is unlikely to be spectacular and, combined with the remaining pressure on imports to meet the demands of the ongoing infrastructure investment programme, the current account deficit is likely to remain wide. This in turn will keep the rand vulnerable on a medium-term view (as will continued inflation differentials in favour of our trading partners). As with other countries, there will also be a need for fiscal consolidation in coming years. So the medium-term growth trend will probably be less exciting than what it was a few years ago, but it will also probably be more sustainable; boring isn’t always a bad thing.

Equity market update

Focused on long-term fundamentals

by KARL LEINBERGER

The second quarter proved to be a bruising reminder of how dangerous it is to try and time markets. In early March, markets rallied when investors least expected it. Before investors had time to 'wipe the sleep from their eyes' the MSCI World Index had rallied 45% and the MSCI Emerging Markets Index by 64% (21% and 34.8% respectively in the quarter).

The global economy stopped haemorrhaging over the past three-month period. This sparked numerous references to 'green shoots', despite the fact that virtually every news release still showed a meaningful decline (year on year) in economic activity. We believe that the global recession will be measured in years, not months, and expect any recovery to be anaemic. The headwinds from deleveraging (from households, banks and governments) will provide a headwind for years to come. Notwithstanding this, we remain of the view that offshore equities provide a compelling opportunity for the long-term investor. The global stocks which we find particularly attractive happen to be listed on the JSE (MTN, Naspers, Richemont, Liberty International, British American Tobacco).

Domestic equities gave an 8.6% return in the quarter, with industrials leading the market – up 14.0%. Financials also had a strong showing with a return of 12.3%, while resources lagged with a 2.7% return. We remain significantly underweight the resource sector. While one would expect a depressed commodity market to be fertile ground for the long-term investor, we are not finding enough value to justify a contrarian view. Our underweight in gold counters contributed to performance in the quarter. We remain of the view that gold has become a crowded 'fear trade'. The gold price is not low and we expect costs to remain under significant pressure with the miners likely to be forced into giving above-inflation wage settlements.



KARL LEINBERGER is chief investment officer and a member of the executive committee. He currently manages the Coronation Equity and Coronation Balanced Plus Funds as well as the Coronation Houseview Portfolios.

Within the industrial sector, Naspers, Netcare, Aspen and MTN all contributed to performance. In bear markets one often finds quality companies with good growth prospects trading at attractive valuations. This is very much the case in the market today and we have taken advantage of this, with MTN and Naspers now being the number one and two sized positions in most of our funds. Small caps showed some signs of recovery in the quarter. We are finding many quality counters trading at four times normal earnings and we have added significantly to our small cap exposure in the last two quarters.

Banks recovered late in the quarter. We continue to believe that banks offer value. The current earnings season will be bleak, but we are close to the bottom of the interest rate cycle. Earnings should recover strongly once the heavy impairments in this earnings season have been taken.

In conclusion, we remain of the view that equities offer the best prospect of inflation-beating long-term returns. Market volatility is unlikely to subside in the near term. To the long-term investor this is not bad news. The last few quarters have produced extraordinary opportunities in the equity market. We remain committed to 'cutting out the noise' and focusing on the long-term fundamentals. 🇬🇧

Bond market outlook

The prospect of lower inflation should bode well for local bonds

by MARK LE ROUX

The second quarter of 2009 has seen a continuation of the weakening trend in bond market yields, albeit at a less vigorous pace than in the prior quarter. Long bonds weakened around 25 basis points at the long end of the curve to yield levels just below 9%.

Inflation data, while declining, has continued to disappoint relative to its expected rate of decline at this stage of the cycle. Consumer price inflation (CPI) at a rate of 8% is well above where the majority of market participants expected it to be when polled at the beginning of the year. So, is this rather 'sticky' pace of decline likely to continue?

We believe there are three key drivers that will start to tilt the inflation story back on a positive path, and in so doing provide a much needed boost to the SA bond market (currently weighed down by an overload of government and SOE (state-owned enterprise) issuance).

The three drivers for an improved inflation outlook are food prices, producer price inflation and the rand.

The adjacent Figure 1 shows maize and wheat prices, which are a reasonable proxy for what is happening to food prices. Both these commodities are running in excess of 30% down on a year-on-year basis. This has already fed into falling agricultural producer inflation and slowing manufacturing food inflation, but has not yet reached the consumer. Given the relatively large weighting of food prices in the overall CPI, the impact of this is likely to make a material difference.

The second key area is producer price inflation (PPI) as shown in Figure 2. This measure has now fallen into negative territory at -3% year-on-year. PPI tends to lead CPI with approximately a four-month lag, and the gap between the two measures is now



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at 11%. If the long-term relationship holds, PPI is likely to exert downward pressure on CPI in the near future.

FIGURE 1: SAFEX FUTURES PRICES, % Y/Y



Source: I-Net Bridge

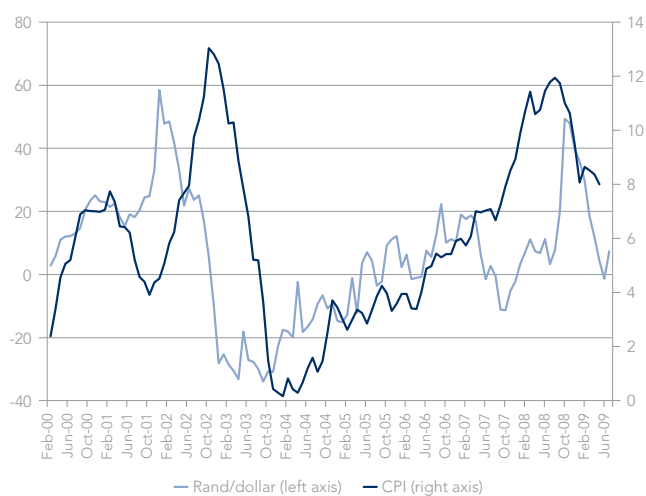
FIGURE 2: PPI VS. CPI INFLATION



Source: I-Net Bridge


The third positive area is the strong rand. A key reason for the 'sticky' inflation experienced in the latter part of 2008 and early part of this year was the weakness in the currency seen last year. But from its lows in early March 2009, the rand had appreciated some 27% by end June. This recent appreciation is likely to have a significant dampening effect on inflation in the second half of the year, provided it holds these levels.

RAND LEADS CPI (BOTH % Y/Y)



Source: I-Net Bridge

Added to these three positive developments is the current stance of the Monetary Policy Committee. The decision to leave rates unchanged at their June meeting demonstrates a willingness to continue wrestling inflation back into the target range and gives a clear signal of their independence.

The next few months should be interesting for the SA bond market as inflation retreats back into the target range, and despite the heavy bond issuance schedule starting to pick up, long bonds with a 9% big figure is starting to look interesting. The biggest threat remains the deluge of supply, as the budget deficit looks set to expand well beyond the estimate provided by National Treasury in February. 

Liberty International

A long-term value unlock opportunity

by ANTON DE GOEDE

At the beginning of 2007 Liberty International's share price reached a high of R194. This was on the back of favourable dynamics in the UK capital and direct property markets between 2000 and 2006. The positive sentiment surrounding the introduction of UK REIT (Real Estate Investment Trust) legislation resulted in a 239% return for UK listed property over this seven-year period.

LIBERTY INTERNATIONAL PLC (CLOSE)

MONTHLY 199/06/30–2009/07/30



Source: I-Net Bridge

The subsequent unravelling of the UK commercial property market led to Liberty International's share price retracing close to 80%. At present, the market continues to price in the same risks which were the main drivers behind the sell-off, despite the diminishing likelihood of their actually occurring. These relate to broader credit issues, continuation of property value write-downs and weaker tenant trading conditions. It seems that negative investor sentiment is prevailing, with very few market participants looking through the current cycle.

With an imminent stabilisation in commercial property yields on the horizon, the opportunity to capitalise on a recovery



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in the Liberty International share price presents itself. Just as the movement in the listed sector pre-empted the magnitude of the derating in the underlying direct market, the recovery should once again be pre-empted in the listed sector.

The duration of prior prolonged listed property downturns is approximately three years, and with the 2007 start of the current downturn, the evident signs of stabilisation in the direct market correspond with such a recovery move. The relative stabilisation in property yields is important as yields are key in valuing property. Although this may not be the ultimate turning point in the cycle it acts as a strong leading indicator.

The level at which Liberty International has been trading implies a yield in excess of 8% for its property portfolio, with its actual portfolio yield closer to 7%. This offers some comfort in that first, with stabilising yields, the likelihood of the portfolio ever reaching the 8% level in the current cycle becomes smaller. And secondly, that the circa 7% portfolio yield is already close to the peak of the previous UK commercial property downcycle in the early 1990s. Remember, the higher the yield, the lower the property value.

Close to 75% of Liberty International's property portfolio consists of prime shopping centres, with nine of these ranked amongst the UK's top 30 centres. Due to strict planning codes and environmental requirements it is difficult to replicate such a portfolio. Retail property has over time been the most defensive in terms of valuation volatility and rental growth. Thus, prime shopping centre valuations are even less volatile and the most defensive in terms of sector exposure.

	Capital value volatility*	Rental growth*	Total return*
Retail	5.2%	5.0%	10.0%
Office	10.6%	2.8%	8.3%
All Property	7.2%	3.7%	9.2%

Source: IPD 1981 – 2008, NewRiver
* Annualised

The underlying value in the Liberty International portfolio attracted shopping centre giants, Simon Property Group and Westfield, both of which established shareholdings in the company during 2008. Management continues to exhibit the ability to look through property cycles to create long-term shareholder value within its property portfolio, with its most recent acquisitions being Earls Court and Covent Garden.


The beauty of the UK's strict planning restrictions is that prime shopping centres have a captive tenant base, specifically from national retailers. In the past it was generally accepted that to capture 50% of the UK's discretionary spend a retailer needed to be in 175 locations; today that number is 65, illustrating the importance of dominant prime shopping destinations.

Investor sentiment continues to focus on the challenging debt market and tenant trading conditions. Liberty International is defensively positioned in both these areas. In terms of debt refinancing risks, with much higher funding costs a pertinent reality, Liberty International's first major debt expiry is only 2011. This provides sufficient time to investigate funding options.

The current weakness in UK retail sales growth has led to many retailers going into administration. In many instances such retailers structure this administration to ensure that their most successful shops remain open for trading. As a prime shopping centre landlord, Liberty International is well positioned for such an eventuality.

A major force behind the share price movements in the UK listed property sector in recent months has been the risk of covenant breaches on debt funding. The sector underwent a round of capital raisings at fairly discounted levels to support their balance sheets and negate this risk.

Liberty International also entertained such a capital raising, but much later than its peer group. The timing proved most fortuitous as the sector had already started to re-rate on the back of the peer group's capital raising, making it less dilutive from a pricing perspective. The capital raised provides headroom for a further 25% value write-down. With the derivative market pricing in a fall of 17% from end-2008 levels to trough property value levels, this should be sufficient.

All things considered, the implied property valuations and risks in the share price do not reflect the true value of the underlying income stream. With current trading levels only marginally higher than trough NAV estimates (which takes the current risks in the sector into account), the long-term value unlock potential is substantial. This is not only true for the share price in sterling, but also in rand as the current sterling weakness makes the potential upside even greater given long-term exchange rate movements. Further, even at trough dividend payout estimates, Liberty International offers an attractive hard currency dividend yield close to 4%. 

'This is far from a typical cycle'

(Bank Credit Analyst, July 2009)

Some optimism returns to the equity markets despite the realisation that the global economy will take a long time to recover

by TONY GIBSON

Investor sentiment around the world improved significantly during the second quarter of 2009, leading to a greater participation in risk-seeking investments across all sectors. Importantly, while global economic numbers barely showed a material improvement, the moderation in the rate of economic decline was sufficient to convince market participants that the worst of the crisis is behind us. Equipped with such newly found optimism, markets ignored adverse developments, the likes of which would have fuelled panic a matter of months ago. Examples such as the situation with Iran and North Korea, bankruptcies by Chrysler and GM, stress tests for the US banks and discussions regarding the downgrading of various countries' sovereign debt seemed not to deter investor enthusiasm.

In June and early July, however, this initial enthusiasm, essentially triggered by signs of a slower pace of economic decline, gave way to a more realistic assessment of the environment. It would appear that investors are waking up to the fact that it is one thing for the recession to end, and quite another for economic activity to return to normal. In reflecting on the improvement in sentiment during the past quarter, we are reminded that turning points in the economic cycle are all about rates of change. The sharp decline in late 2008 and early 2009 was of such an unprecedented scale that it could not be sustained.

That said, even if the economy is bottoming, activity will be at historically depressed levels for some time. For many it will continue to feel more like a recession than a recovery. It strikes us as unrealistic to expect that 25 years of excess could be solved in 18 months. To give some perspective: The US financial sector



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debt load is now 117% of GDP. In the bull market of 1982, the comparable number was 22%. Household debt is now at 96% of GDP, versus 47% in 1982. The deleveraging process at banks and households alike will take time. The banks' write-offs will continue in all sorts of loan products, and delinquencies will rise as the recession bites – thereby sustaining a negative cycle.

In order to justify this opinion it is worthwhile briefly refreshing our memories as to the salient facts that caused the current macro crisis. In the 1990s the US economy went through a subtle but ominous change. In a nutshell, income-short consumers in the US (and parts of Europe) discovered the seemingly open-ended benefits to be derived from the wealth creation; provided by firstly equities, and then residential property. American households drew on asset appreciation to consume well beyond their means, certainly well above the consumption ceiling which would be internally generated by US labour markets. Personal consumption in the US surged to 72% of real GDP in early 2007, creating a spending binge without precedent in US history – or for that matter in the long history of any leading economy in the modern era. To again give perspective, personal consumption ranged between 60% and 65% of GDP in the US for the period 1950-1980. This new wealth creation was fuelled further by the creation of new and 'innovative' mortgage finance, as homeowners tapped the seemingly open-ended home equity ATM. Net equity extraction from residential households surged from 3% of disposable income in 2000 to nearly 9% in 2006. As we also know, the US was lacking in income-based saving, and as a result the US imported surplus savings from abroad to keep growing. It ran a massive current account deficit (6.5% in 2006) to attract the needed capital.

The unravelling of this credit bubble is by now well documented and understood. However, the global economy will continue its path of structural adjustment and deleveraging for a long time. Such a process will dampen growth for the foreseeable future and create further uncertainty and apprehension. The global


economy and policy makers still face considerable challenges despite the renewed optimism of recent months. Examples of these challenges are:

- The bulk of government rescue packages have been aimed at the financial sector. We are seeing some evidence of improving credit spreads. However, the effect of this on the real economy is clearly lacking thus far, as was again highlighted by economic statistics released in early July.
- As the yield curve steepens financial institutions may resume 'carry trades' rather than lending, resulting in less badly needed credit extension to the real economy.
- Uncertainty about the future policies of the US Fed's regarding quantitative easing could trigger further erosion of confidence in the US dollar.
- The threat of trade sanctions is ever present as economic problems endure on a global basis.
- While deflation remains the bigger problem at present – as signalled by the continued decline in the velocity of money – concerns about the longer-term inflationary effects of massive liquidity injections cannot be ignored.

Nonetheless, the world is undoubtedly looking better than it did 12 months ago. We now have two vital fundamental ingredients in place: a financial system which is beginning to function and some signs of a recovery in consumer confidence. Both are however vulnerable. Whilst equities have recovered strongly from their lows, one has to remember that the low point was implying Armageddon, ie systemic failure in the banking system resulting in a depression in the real economy.

In the April edition of *Corospondent* we concluded by advising clients that history suggested that investing at a time (following a 50% fall in equity markets) when the returns over the past 10 years had been negative, was normally very rewarding. In fact, returns of 15% – 20% per annum over the following 10 years were likely if long-term historic precedent is to be believed. We also suggested 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. While we still hold that opinion, it must be stressed that world equity markets have risen by 20% during the past quarter. This was certainly due to equities benefiting from the improvement in investor sentiment, and valuations becoming extremely attractive at their previously depressed levels. This reassessment of equities, coupled with the huge level of cash sitting on the sidelines, provided the impetus for the markets to rally.

Where does that leave us now? In our opinion, investor sentiment during the events of the past eighteen months is the exact opposite of what happened in 1987 and 2000. What is clear is that immediately before those market crashes, there were many 'new investors' investing in equities who were new entrants to the equity markets. Not to mention ill-informed retail investors, these investors also included company treasurers inappropriately using their surplus cash flows. In 2009, however, the opposite seems to be the case. Many who normally have substantial equity investments – pension and endowment funds for example – have had exposure not just below their neutral positions but even below their minimums. Despite the second quarter rally, in Europe as an example, the dividend yield to bond yield ratio suggests that the European equity market is more attractively priced today than it was when it made new lows in March 2003.

The key issue for equity market behaviour in the coming months is whether we will witness, and sustain, a decoupling between real economic progress and market sentiment, and therefore price behaviour. As we have stated, we expect prolonged economic weakness and it is therefore difficult to predict what effect the delay in anticipated recovery will have on market sentiment. The gap between those believing in a prolonged downturn and those convinced that economic recovery is near, is likely to manifest itself in market volatility over the coming months. We remain of the view that any further downward pressure on equity prices over this period – which looks probable at this point – continues to offer an entry point to well selected equities around the world. This we believe will prove very rewarding on a five- to ten-year time horizon. 

Bring on the bulls

The recent rally in global equities may be the signal

by guest contributor DAVID NELSON

We are growing increasingly confident that the market made its low for this cycle in early March and that the move off that low is the beginning of a new bull market, rather than a bear market rally. Whether this bull is a cyclical bull within a continuing secular bear market, or the beginning of a new secular bull market is unclear at this point, but for a while, at least, we think it won't matter. Our main message to clients is that we believe the market has made an important bottom and is going higher over the next year or so, and that investors should be positioned accordingly.

Our optimism is based on a number of factors including the action of the market itself, the improvement in credit markets and narrowing of credit spreads, the ongoing recapitalisation of the US banking system, the dramatic recovery in emerging market equities and, finally, the upturn, both here and abroad, in a wide variety of leading indicators which normally presage an upturn in economic activity.

In our opinion, the impressive rebound in stocks since early March is significant because the market itself is one of the most reliable leading indicators of economic activity that we have. Up until 2 June, the S&P 500 Index was up over 42% from its March low on an intra-day basis. Strength of this magnitude has normally been seen only in the initial stages of a new bull market, rather than in a bear market rally. The current rally is only the fourth time in 82 years that the market has been up 37% or more in 58 trading days, according to data from Birinyi Associates, the stock market research firm. All three prior instances confirmed the validity of bull-market moves, and all three advanced an additional 20% before suffering a correction of greater than 10%.

Stocks have rallied sharply since March, not just in the US, but worldwide. The MSCI World Index was up almost 9% in May, its best monthly performance in more than 30 years. Emerging markets, which are highly sensitive to incremental economic growth, have been notably strong year to date (total returns in



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local currencies): China (44%), Korea (24%), Hong Kong (28%), India (51%), Russia (84%), Brazil (41%), Venezuela (30%), Chile (30%), Argentina (47%) and Mexico (9.5%). We seriously doubt that world equity returns would be this strong, or this broad-based, if an upturn in the global economy were not in the offing.

Credit market conditions have improved considerably in recent months and credit spreads have narrowed dramatically. Both investment grade and high-yield issuance have rebounded significantly in the first five months of 2009. In all, credit markets, including the commercial paper and interbank lending markets, appear to be on the mend.

The ongoing recapitalisation of the US banking system is also quite encouraging in our view. The 19 financial institutions required to be stress-tested have reportedly raised a total of \$65 billion in new common equity since 7 May. Non-guaranteed debt sales and the conversion of preferred shares to common stock have generated about another \$20 billion, for a total of \$85 billion, comfortably more, in most cases, than the amounts required by the government stress tests. A number of institutions – including JP Morgan Chase, Goldman Sachs and Morgan Stanley – will likely use their 'excess' capital to pay back TARP funds as soon as they are permitted to do so.

On the economic front, we also see a number of encouraging signs. Purchasing managers' indexes (PMIs) for both production and new orders have turned up in many developed and emerging market countries in the last couple of months. China's PMIs have actually risen above 50, indicating that their manufacturing sector is actually growing again, and suggesting that China may prove to be an important engine of global recovery. In the US, new manufacturing orders rose in April for

the first time since the recession began, suggesting that the US economy may begin to recover in the second half of 2009. Other recent signs of improvement in the US economy include a seventh consecutive weekly gain in ISI Group's trucking survey and a US Commerce Department report that shows construction spending rose unexpectedly in April, led by gains in residential and commercial building. Inventory liquidation, which was a huge negative contributor to US GDP in the fourth quarter of 2008 and the first quarter of 2009, also appears to be nearing an end, according to the Institute for Supply Management.

True, the economic environment remains challenging in many respects. Job losses remain uncomfortably high, though the rate of loss seems to be diminishing. Recent changes in credit card laws, while ostensibly intended to protect consumers, will likely have the effect of reducing the availability of credit to subprime and other low-scoring borrowers, who will be forced to pursue less attractive sources of funding, such as payday loans, to satisfy their credit needs.

Perhaps the biggest challenge facing corporate America in general will be the fact that nominal GDP growth, even as the

economy begins to recover, is likely to be as low, or lower, than at any time since WWII. In this environment, attractive sales growth rates will be difficult to achieve.

Longer term, of course, investors face the issue of how the US government will finance its ever-increasing Social Security, Medicare and Medicaid obligations while still maintaining its credit rating and the integrity of the US dollar. Constructive resolution of these issues would brighten the long-term outlook for equities considerably. Failure to properly address the issues could well lead to the decidedly less favourable outcome that secular bears envision.

Longer-term concerns notwithstanding, we think that over the next year or so, the market has a good chance of trading higher, perhaps substantially higher, as the US and world economy begin to recover and credit market conditions continue to normalise.

The Coronation World Equity Fund has exposure to the Legg Mason Value Fund managed by Bill Miller. 



International portfolio update

■ Coronation Global Equity Fund of Funds (for institutional investors only)

The fund produced a return of 23% for the quarter, which is 1.8% ahead of the benchmark MSCI World Index. On a rolling 12-month basis this outperformance extends to 6.9%, with the fund returning -22.1%, against the benchmark's -29.0%.

Equity markets rallied strongly in the second quarter as the credit crisis abated and investor confidence increased. The US banking system stress test appeared to draw a line in the sand with regard to the major banking groups and investors reacted positively to those results. This was further emphasised by the declining TED spread (LIBOR less T-Bill) which dipped below 0.5% after peaking at over 3.0% at the height of the crisis. A final positive point was a repayment of some TARP (Troubled Asset Relief Program) money by ten of the larger US financial institutions, including Goldman Sachs, JP Morgan Chase and American Express.

In terms of regional performance, Asia ex-Japan was the best performing region, appreciating 32.0% (in US dollars) over the quarter led by Singapore and Hong Kong. Europe rose 25.9% (in US dollars) with big gains in Spain, Greece, Italy and Sweden. Japan was close behind Europe at +23.0% while North America was a distant +17.1%. The fund was underweight North America and overweight Asia during the quarter and, consequently, the regional allocation was a significant contributor to relative outperformance over this time.

The fund's large cash exposure, on a look-through basis, at the end of March dropped substantially to 6% by the end of April as managers reinvested in surging markets. We expect it to remain around this level going forward.

The standout performance for the quarter was from UOB Kinetics Paradigm which is enjoying an excellent year after a poor 2008. Paradigm has for some time had sizeable exposure to three main themes, namely, the Canadian Oil Sands, Global Stock Exchanges and Emerging China, which they see as highly cash-generative businesses/investments over the medium to

long term. These themes performed well in 2007 but were big losers in 2008. Despite the assault on stock prices, the managers held onto their positions as they saw no change in the long-term operating environments or viability in the individual businesses and have been rewarded with an excellent 20% outperformance of the S&P 500 over the quarter.

Veritas Asia Fund also had a strong quarter and finished 4% ahead of the Asian index which rose 31%. Portfolio manager Ezra Sun has managed the fund very well over the past 18 months, making some good investment calls. In 2008 he benefited from almost no exposure to China after selling out in February and March of that year – well before the eventual collapse. His most recent strategic move, in January 2009, was to reinvest heavily in Chinese consumer and infrastructure companies as he came to realise that China's bold and dramatic steps to change its economy and survive the global crisis looked likely to succeed. Through good stockpicking he built up exposure of 30% to China, and this was the main driver for performance this quarter.

Comgest Nouvelle Asie was the worst relative performing fund for the quarter, finishing almost 10% behind its benchmark. Portfolio manager Vincent Strauss has a conservative view on the markets and is more defensively positioned with a more regionally diverse portfolio than most of his peer group. Comgest has had a relatively weak 12-month period, but we remain confident that they will again contribute sizable outperformance over the longer time.

The balance of managers delivered in line with their benchmarks and had little impact on this quarter's performance.

During the quarter, we fully redeemed from the Wyper Core Fund after a period of disappointing performance and replaced it with Contrarius Global Equity Fund.

■ Coronation World Equity Fund (for all foreign currency investors)

The fund returned 22.7% for the quarter, against 21% from the benchmark MSCI World Index. For the rolling 12 months the fund has returned -17%, which is 12% ahead of the benchmark at -29.0%.

In terms of regional allocation, our overweight exposure to Asia (underweight North America) contributed strongly to relative outperformance over the quarter.

The fund's cash exposure, on a look-through basis, at the end of March dropped to 13% by the end of April as managers reinvested in the markets. It remained at this level for most of the quarter and is higher than we would have liked given the rally we experienced. The cash exposure, an obvious drag on performance this quarter, is primarily due to our investments in Ruffer European and Prusik Asia. Both managers still have a cautious outlook for markets and are managing their exposure accordingly.

Ruffer European had an excellent 2008 through the use of a put option and low exposure. This conservative stance has remained throughout the second quarter in the expectation that the initial rally would be short lived. As a house, Ruffer remains bearish and does not share the enthusiasm of some for the 'V-shaped' recovery. They are also concerned about inflation and have exposure to gold in all their portfolios. Generally, equity exposure is to companies with strong balance sheets, high cash flows and high dividend yields, but Ruffer European does have a bias towards small- and mid-cap stocks. Prusik Asia is not as defensively positioned as Ruffer and has steadily invested its cash holding over the quarter, bringing it down to around 15%. Prusik Asia lagged the Asian markets over the quarter; in April the high cash balance caused a drag and in June performance was hurt by the sharp decline in Taiwan.

Cantillon Global Value also negatively impacted performance for the quarter. Cantillon was added to the portfolio in March as we expected their style of investing to benefit in the then prevailing market conditions. The recent rally has meant that they have largely underperformed, but we remain confident that they will prevail over time.

We also offer a rand-denominated unit trust called Coronation World Equity [ZAR] with a similar mandate.

■ Coronation Latitude Fund (for all foreign currency investors)

The fund returned 14.8% for the quarter, against the 3.76% of the benchmark. As at 30 June exposure was 37.2% equities, 4.6% gold, 19.5% fixed income and cash at 38.7%

The fund's equity exposure was the main contributor to overall performance during the period as markets rallied strongly in April and May. This exposure is further biased towards emerging markets which outperformed developed markets during this time. UOB Kinetics Paradigm, a US-centric global fund also

enjoyed an excellent quarter, generating 20% alpha over the S&P 500. Our holding in gold also made a small contribution to performance as it gained attention on the back of inflation fears and a weakening US dollar. However, our fixed income exposure, a call on the normalisation of real and nominal yields, detracted from performance.

We have retained the high cash weighting in the portfolio as we are wary of short-term market volatility.

We also offer a rand-denominated unit trust called Coronation Latitude [ZAR] with a similar mandate.

■ Coronation Global Equity Alternative Strategy Fund (for institutional investors only)

The fund returned 11.95% for the quarter, bringing its out-performance of the MSCI World Index to 21% on a rolling 12-month basis.

The net exposure of the fund increased over the quarter from 22% net long to 34%, and the gross exposure moved from 102% to 135%. Net exposure does however remain low and as a result the fund did not fully participate in the strong rebound in the markets. The greatest contributors to the past quarter's performance were the US managers followed by the Asian managers.

For the year to date, the S&P 500 has returned 1.94%, whilst our best performing US manager has returned 25%, and 6.9% from the worst performing US manager. Similarly, all the European managers have outperformed the Pan European (Euro) Index on a year-to-date basis, with the best performing manager returning 17.57%. Over the quarter, two of the three European managers outperformed the index.

The very strong rally in Asian markets did not augur well with our managers who were running conservative net exposures. As such we were unable to capture the entire market rally. On a rolling 12-month basis, Asia ex-Japan has returned -27%. In stark contrast, our best performing manager has returned 18.7% and the worst performer 3.7% on a rolling 12 months.

The market volatility continues and as such we believe there will be many opportunities for our managers on the long and short side. 🇺🇸

Personal investments update

Investing offshore with Coronation

Coronation now offers a full range of portfolios with exposure to foreign assets aimed at different investor needs. We continue to hold the view that offshore assets, and specifically global equities, will produce significantly better results over the next five- to ten-years compared to the historical experience of South African investors going offshore.

The funds and their key characteristics are highlighted in the table below.

Optimum Growth, the only international fund specifically managed to achieve positive returns for rand investors, has achieved attractive relative risk-adjusted results since launch. With a return of 10% p.a. and a standard deviation of 12.9% over the last five years, it has outperformed all rand-denominated foreign equity and flexible funds on a risk-adjusted basis. World Equity [ZAR], launched in 1997, is the best performing foreign equity fund over 5 and 10 years and one of only three that have outperformed the MSCI World Index over 3, 5 and 10 years.

While both GEM Flexible and Latitude do not yet have meaningful track records, early results are very pleasing. Latitude has produced a US dollar return of 12.4% since launch, compared to its foreign cash benchmark of 6.7%, and GEM Flexible is 15.8% ahead of its benchmark (un-annualised) since launch in January 2008.

The key arguments to include foreign assets in your portfolio include:

Relative valuation of different markets

While local equities have significantly outperformed offshore equities over the last decade, this has not always been the case. Recent local market performance benefited from a reasonably benign backdrop, marked by higher than average growth and low and relatively stable inflation. This was underpinned

by the supportive effect of policy certainty and political stability. A further factor that contributed to local outperformance was an attractive initial valuation level at the start of the decade. The South African market was much less affected by the technology bubble that led to the more significant overvaluation of global equities, which subsequently unwound.

The recent experience where local handsomely beat offshore was preceded by a 20-year period, from 1980 through 1999, where the reverse was true and offshore equities significantly outperformed local equities. There is no guarantee that the future will be the same as the most recent past, making it dangerous to frame expectations based only on the most recent experience. Coronation's view, based on the view that capital should as far as possible be allocated to the cheapest source regardless of location, remains that foreign equities provide more attractive opportunities at present.

Access to a larger opportunity set

Investors that restrict their universe to local assets miss out on 99% of the available investment opportunities presented by listed assets around the globe. Examples of foregone possibilities include:

- Accessing high-growth regions such as Brazil and China benefiting from the mega drivers of urbanisation and industrialisation
- Investing in the global leaders in industries that are not fully developed in South Africa (e.g. pharma, energy and technology)

Liability matching

It is worthwhile to consider that many items in the consumer's basket, from fuel to food to healthcare, are largely priced in foreign currency terms. Adequate foreign exposure seen from this perspective is merely a hedge against the long-term change in prices of this part of your future shopping basket. Potential currency weakness will remain a strong inflation driver into the future.

	Return objective	Risk budget	Current exposure to foreign assets	Current exposure to equity assets
Latitude [ZAR]	To achieve a medium-term return in excess of foreign cash plus 3% p.a.	To protect US dollar capital over a rolling 12-month period	100%	30%
Optimum Growth	To achieve a medium-term return in excess of local inflation + 5% while retaining a globally balanced portfolio	To achieve real returns for rand investors with significantly lower volatility than the global and domestic equity market	80%	87%
World Equity [ZAR]	To achieve a medium-term return in excess of global equity markets (measured through the MSCI Index)	To limit volatility to a maximum equal to that of the global equity market	100%	100%
Global Emerging Markets Flexible	To achieve a medium-term return in excess of global emerging markets (measured through the MSCI GEM Index)	To limit volatility to a maximum equal to that of global emerging markets	86%	88%

Portfolio optimisation

Nearly all portfolio optimisation studies show that the most efficient portfolio to achieve a return of local inflation plus 4%-6% includes at least 30% exposure to foreign assets. Note that prudential limits currently restrict offshore allocations in pension funding portfolios and retirement accounts to 20% of assets, arguing in favour of some additional offshore exposure in the discretionary part of your portfolio.

Fee changes

We recently conducted a comprehensive review of our unit trust fee structures. As a result, we have decided to remove all remaining initial fees on new investments made on or after 1 March 2009. Thus all investments placed in any Coronation unit trust fund, irrespective of the platform or product used to access the fund/s, can now be placed at no initial cost.

We will also implement changes to the ongoing fee structures of the following funds, with effect from 1 November 2009:

- The basis on which the Coronation Top 20 Fund's performance fee is collected will change. In future, the performance evaluation period will increase from 12 to 24 months and a performance fee will be payable at all month-ends where the fund outperformed the benchmark over the performance period. The immediate effect of the change in performance fee basis is to reduce the total fee charged when compared to the current approach;
- The base fees applicable to the Coronation Equity Fund and the Coronation World Equity Fund of Funds will be reduced and performance fees with low participation rates above demanding hurdle rates have been added;
- The basis on which fees applicable to the Coronation Balanced Defensive Fund will be discounted for negative performance will be revised.

A detailed communication has been mailed to all affected investors. Should you wish further information, please do not hesitate to contact us on 0800 22 11 77.

Fundisa

The Fundisa Fund is a great way to save for tertiary education from as little as R40. What's more, is that investors in Fundisa are rewarded for their commitment by having a bonus added to their investment. This means that in addition to the normal

interest that accumulates on your savings, a bonus of 25% on the amount saved during a year, to a maximum of R600 per child, will be added to your savings. To earn the maximum bonus you would need to save R2 400 a year. This does not mean that you are limited to the amount that can be saved through Fundisa, but the bonus amount is capped per learner.

Anyone can open a Fundisa Fund account and the investor does not have to be related to the learner. This creates a wonderful opportunity to open an account on behalf of a child who does not have someone else to save for him or her. Perhaps you could help a learner afford a good education?


Fundisa was launched in November 2007 by the unit trust industry with the aim of making available a fund for the lower income market that would encourage a habit of long term savings. While this is the main target market, the Fundisa Fund is accessible to anyone wishing to save for a child's tertiary education.

The unique bonus feature has been made possible through a joint venture between the Department of Education and various unit trust companies. Together they have agreed to support a three year pilot project to measure the willingness of South Africans to commit to a long-term savings initiative intended to fund learners' tertiary education. This will ultimately increase the skills level in the country.

The bonus 'money' does not belong to the investor as it can only be used to fund the learner's education at a public college or university that is recognized by the National Student Financial Aid Scheme (NSFAS). Should the chosen learner decide not to embark on tertiary studies the investor can transfer the savings to another learner. If the bonus 'money' is not used to pay towards a learner's studies it will revert back to the bonus pool.

Fundisa has a low risk investment mandate and is invested in income unit trusts managed by Coronation Fund Managers, Investec, Old Mutual and Stanlib. These portfolios invest in bonds, fixed deposits and other interest earning securities. Equity investments are excluded.

To find out more, or to open a Fundisa account you can log onto www.fundisa.org.za or call one of the following:

- Absa, call 0860 111 456
- Nedbank and Nedgroup Investments, call 0860 123 263
- Standard Bank and STANLIB, call 0860 386 347 



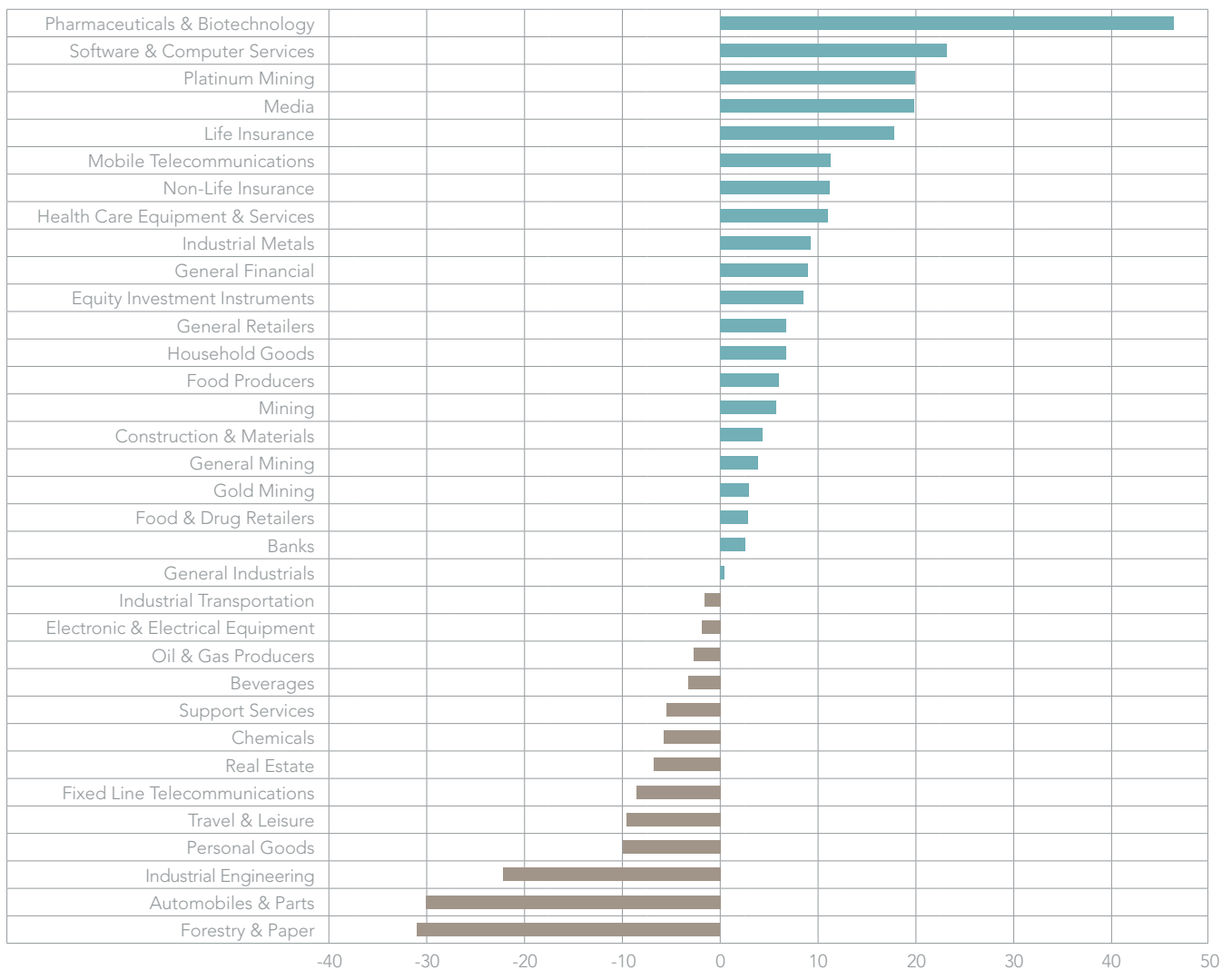
MARKET MOVEMENTS

Economic group	Qtr 2 2009 %	2008 %
All Share Index R	8.6	4.1
All Share Index \$	34.8	28.5
All Bond R	0.3	(4.9)
All Bond \$	24.5	17.5
Cash R	2.2	5.0
Resources Index R	2.7	4.4
Financial Index R	12.3	4.4
Industrial Index R	14.0	3.5
MSCI World \$	21.0	6.8
S&P 500 \$	15.9	3.2
Nasdaq \$	19.4	20.5
MSCI Pacific \$	25.7	9.7
Dow Jones EURO Stoxx 50 \$	25.7	1.9

KEY ECONOMIC DATA: HISTORY AND FORECAST

	2006a %	2007a %	2008a %	2009f %	2010f %
HCE	8.3	6.6	2.3	(1.2)	3.3
GCE	5.1	4.8	5.0	4.8	4.8
GFCF	13.2	16.3	10.2	2.9	5.0
GDP	5.3	5.1	3.1	(1.3)	3.1
Current a/c % of GDP	(6.4)	(7.3)	(7.4)	(5.8)	(7.0)
CPIX average (CPI 2009)	4.6	6.5	11.3	7.5	5.6
Prime rate (year-end)	12.5	14.5	15.0	11.0	12.5
R/\$ year-end	7.02	6.83	9.92	8.40	10.00
R/EUR year-end	9.27	9.94	13.44	11.59	13.20

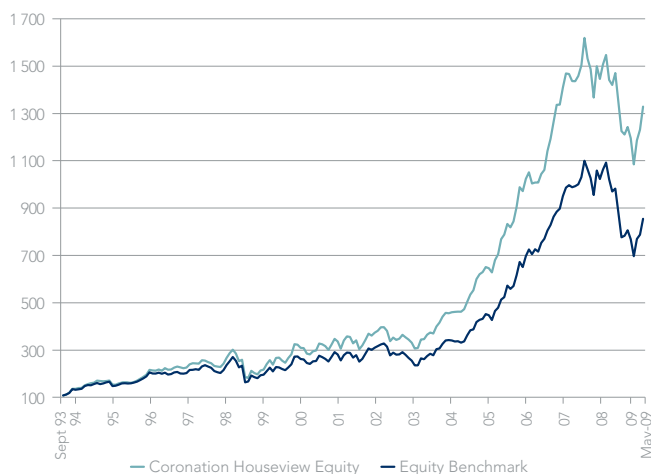
JSE YTD PERFORMANCE



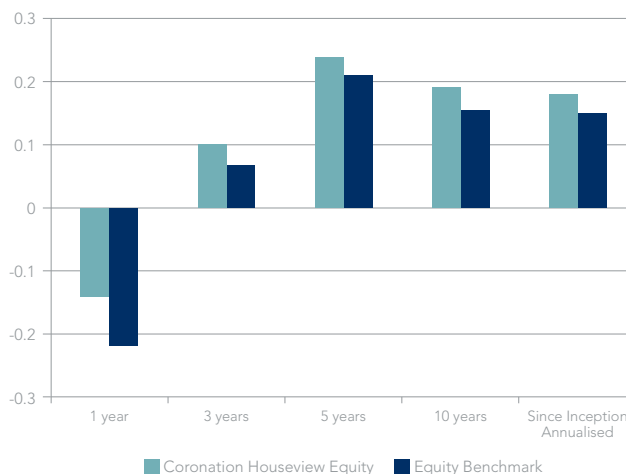
CORONATION HOUSEVIEW EQUITY RETURNS VS. EQUITY BENCHMARK

5-YEAR ANNUALISED RETURNS	CORONATION HOUSEVIEW EQUITY	EQUITY BENCHMARK	ALPHA
1998	8.15%	6.49%	1.66%
1999	14.23%	10.91%	3.33%
2000	10.93%	7.84%	3.09%
2001	10.95%	9.29%	1.66%
2002	9.46%	6.94%	2.52%
2003	18.02%	13.05%	4.97%
2004	14.12%	9.74%	4.38%
2005	23.33%	18.35%	4.99%
2006	28.37%	23.51%	4.86%
2007	33.78%	30.35%	3.43%
2008	23.34%	20.28%	3.06%
2009 (to 31 May 2009)	19.02%	17.28%	1.75%
ANNUALISED TO 31 MAY 2009			
1 year	(14.2%)	(21.9%)	7.8%
3 years	9.9%	6.7%	3.2%
5 years	23.8%	20.9%	3.0%
10 years	19.1%	15.5%	3.6%
Since inception in October 1993 annualised	17.9%	14.7%	3.2%
Average outperformance per 5-year return			3.31%
Number of 5-year periods outperformed			12
Number of 5-year periods underperformed			–

CUMULATIVE PERFORMANCE



ANNUALISED RETURNS SINCE INCEPTION



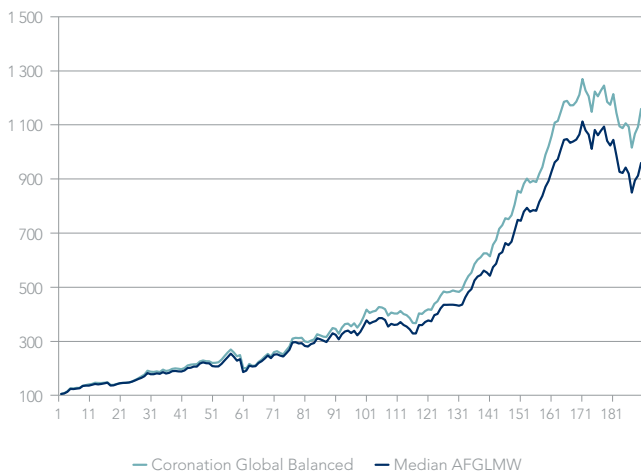
An investment of R100 000 made in Coronation Houseview Equity on 31 October 1993 would have grown to **R1 328 123** by 31 May 2009. By comparison, the returns generated by the Equity Benchmark over the same period would have grown a similar investment to **R857 967**.



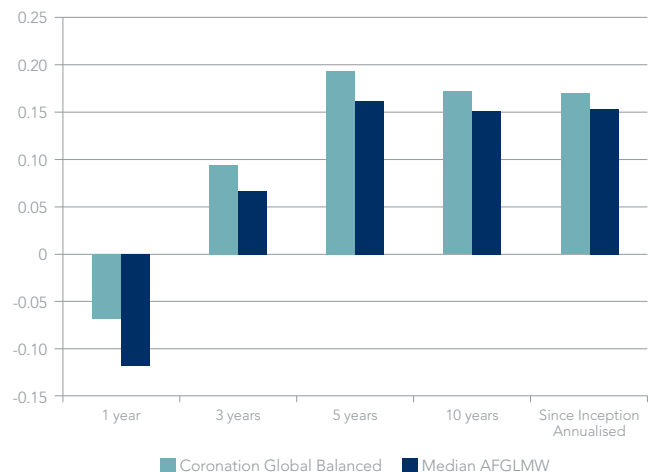
CORONATION GLOBAL BALANCED RETURNS VS. ALEXANDER FORBES GLOBAL LARGE MANAGER WATCH (AFGLMW)

5-YEAR ANNUALISED RETURNS	CORONATION GLOBAL BALANCED	MEDIAN AFGLMW	ALPHA
1998	11.21%	11.26%	(0.04%)
1999	16.35%	15.54%	0.81%
2000	13.87%	13.17%	0.70%
2001	16.60%	15.02%	1.58%
2002	12.79%	12.05%	0.73%
2003	17.72%	15.96%	1.76%
2004	14.40%	13.30%	1.10%
2005	19.57%	18.16%	1.41%
2006	20.72%	19.53%	1.19%
2007	24.90%	24.81%	0.09%
2008	18.93%	17.47%	1.46%
2009 (to 31 May 2009)	16.14%	12.68%	3.46%
ANNUALISED TO 31 MAY 2009			
1 year	(7.0%)	(12.0%)	5.0%
3 years	9.4%	6.6%	2.8%
5 years	19.2%	16.5%	2.7%
10 years	17.1%	15.2%	1.9%
Since inception in October 1993 annualised	16.9%	15.5%	1.5%
Average 5-year performance			16.93%
Number of 5-year periods outperformed			11
Number of 5-year periods underperformed			1

CUMULATIVE PERFORMANCE



ANNUALISED RETURNS SINCE INCEPTION



An investment of R100 000 made in Coronation Global Balanced on 31 October 1993 would have grown to **R1 162 309** by 31 May 2009. By comparison, the median return of the Alexander Forbes Global Large Manager Watch over the same period would have grown a similar investment to **R980 078**.

INSTITUTIONAL PERFORMANCE

FUND	LAUNCH DATE	1 YEAR	3 YEARS	5 YEARS	CUM SINCE LAUNCH*	ANN SINCE LAUNCH*
PENSION FUNDS						
MARKET-RELATED BENCHMARK PORTFOLIOS						
GLOBAL BALANCED						
Houseview	1-Nov-99	(7.24%)	9.32%	19.18%	335.60%	16.60%
Median of AF Global Large Manager Watch		(11.95%)	6.55%	16.48%	284.75%	15.10%
Managed One	1-May-96	(4.19%)	10.27%	19.75%	696.57%	17.07%
Upper Quartile of AF Global Large Manager Watch		(11.03%)	7.33%	18.19%	486.56%	14.38%
Managed Two	1-Apr-00	(6.05%)	10.45%	20.64%	320.01%	16.95%
Composite Benchmark ¹		(15.37%)	6.27%	16.52%	191.15%	12.37%
DOMESTIC BALANCED						
Domestic Houseview	1-Apr-04	(6.81%)	10.60%	20.78%	157.47%	19.74%
Median of AF South African Large Manager Watch		(9.50%)	8.49%	18.75%	137.40%	17.90%
SPECIALIST EQUITY						
Core Equity	1-Mar-04	(12.80%)	11.67%	23.96%	195.44%	22.92%
FTSE/JSE Shareholder Weighted Index		(21.94%)	6.89%	20.80%	154.47%	19.47%
Houseview Equity	1-May-00	(14.18%)	9.87%	23.82%	378.05%	18.80%
FTSE/JSE Shareholder Weighted Index ²		(21.94%)	6.71%	20.87%	258.52%	15.09%
Aggressive Equity	1-Jan-04	(8.66%)	10.47%	23.43%	194.85%	22.09%
FTSE/JSE Shareholder Weighted Index		(21.94%)	6.94%	20.88%	164.89%	19.70%
SPECIALIST FIXED INTEREST						
Cash Plus	1-Sep-02	13.32%	10.50%	9.32%	91.52%	10.11%
Short Term Fixed Interest 3-month Index		11.38%	9.99%	8.87%	84.75%	9.52%
Active Bond	1-Aug-00	17.98%	7.39%	10.09%	203.40%	13.26%
BEASSA All Bond Index		17.47%	6.48%	9.59%	187.99%	12.59%
Strategic Bond		18.52%	–	–	18.52%	18.52%
BEASSA All Bond Index		17.47%	–	–	17.47%	17.47%
INFLATION-LINKED BENCHMARK PORTFOLIOS						
Global Absolute	1-Aug-99	3.57%	10.43%	18.92%	417.48%	18.20%
CPI + 7% per annum		15.01%	15.42%	13.64%	258.16%	13.85%
Domestic Absolute	1-Apr-02	7.09%	12.06%	19.96%	261.72%	19.65%
CPI + 5% per annum		13.01%	13.42%	11.64%	118.59%	11.53%
Medical Aid Absolute	1-May-04	8.60%	11.48%	17.30%	124.33%	16.93%
CPI + 4.5% per annum		12.51%	12.92%	11.14%	71.43%	11.00%
INTERNATIONAL FUNDS³						
Global Equity (US\$)	1-Jul-00	(21.21%)	(4.79%)	3.48%	1.76%	0.19%
MSCI World Index (US\$)		(29.01%)	(7.48%)	0.57%	(17.52%)	(2.12%)
Global Equity (ZAR)	1-Jul-00	(22.34%)	(2.35%)	8.05%	15.93%	1.64%
MSCI World Index (ZAR)		(30.02%)	(5.11%)	5.02%	(6.04%)	(0.68%)
GLOBAL EQUITY ALTERNATIVE STRATEGY FUND (US\$)^{3,4}						
Global Equity Alternative Strategy (US\$)	1-Aug-96	(9.80%)	(0.12%)	3.84%	197.30%	8.80%
50% MSCI World Index + 50% USD Cash (US\$)		(16.12%)	(0.67%)	3.15%	68.28%	4.11%
Global Equity Alternative Strategy (ZAR)	1-Aug-96	(11.08%)	2.44%	8.43%	409.12%	13.43%
50% MSCI World Index + 50% USD Cash (ZAR)		(18.13%)	1.54%	7.49%	185.35%	8.46%
Global Bond (US\$)	2-Jul-03	0.68%	5.85%	5.96%	39.96%	5.76%
Citigroup World Government Bond Index (US\$)		4.00%	7.76%	6.06%	40.85%	5.88%
Global Bond (ZAR)	2-Jul-03	(0.74%)	8.02%	10.30%	43.91%	6.25%
Citigroup World Government Bond Index (ZAR)		2.51%	10.53%	10.74%	47.61%	6.70%

1. 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).

2. Benchmark for Houseview Equity changed from FTSE/JSE Capped All Share to the Shareholder Weighted All Share Index on 1 July 2007.

3. Figures quoted as at 31 May 2009, with estimates for June.

4. This fund is available to institutional investors only. An estimate was used for June's fund performance.

5. Figures are quoted from Morningstar as at 30 June 2009 for a lump sum investment and are calculated on a NAV-NAV basis with income distributions reinvested.

6. Benchmark for the Balanced Plus 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.

7. Returns are in US\$. For rand returns, refer to fund fact sheet on our website.

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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. A schedule of fees and charges is available on request from the management company. Commission and incentives may be paid, and if so, are included in the overall costs. Forward pricing is used. A full member of the Association for Savings & Investment SA (ASISA).

†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 March 2009. 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.

* CUM SINCE LAUNCH = Cumulative returns since launch, ANN SINCE LAUNCH = Annualised returns since launch. Figures of one year and less indicate percentage change.

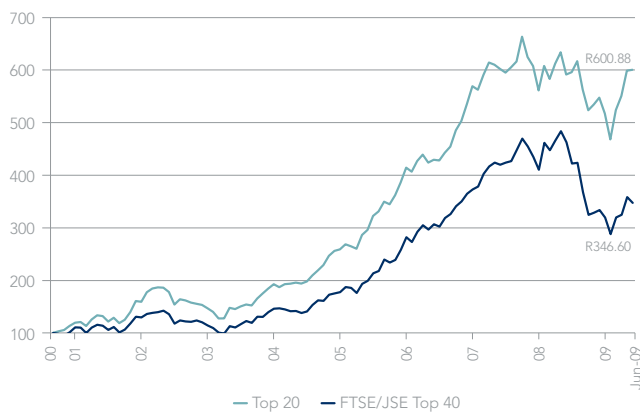


UNIT TRUST PERFORMANCE

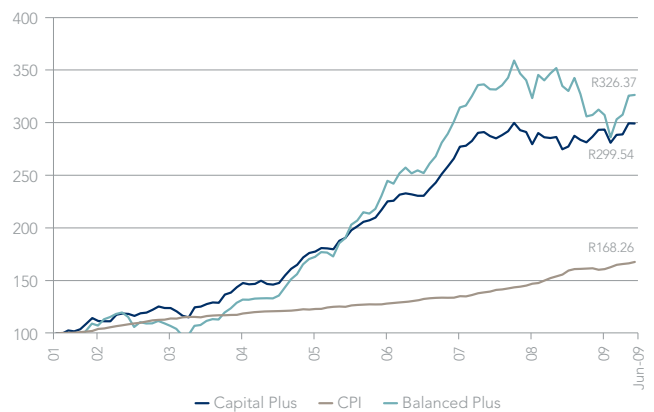
FUND	LAUNCH DATE	1 YEAR	3 YEARS	5 YEARS	CUM SINCE LAUNCH*	ANN SINCE LAUNCH*	% POSITIVE 12 MONTHS	TER
SOUTH AFRICAN COLLECTIVE INVESTMENTS								
MULTI-ASSET FUNDS⁵								
Capital Plus	2-Jul-01	8.89%	9.06%	15.37%	199.54%	14.70%	66.67%	0.96%
CPI + 4% per annum		11.70%	12.53%	10.76%	125.86%	10.72%	91.67%	inc. performance fee of -0.02%
Balanced Defensive	1-Feb-07	8.32%	-	-	17.65%	7.22%	75.00%	1.76%
Short Term Fixed Interest 3-Month Index + 3%		14.08%	-	-	34.63%	13.59%	100.00%	
Balanced Plus	15-Apr-96	(2.52%)	8.59%	19.56%	606.49%	16.01%	58.33%	1.63%
Composite Benchmark ⁶		(10.44%)	6.14%	17.20%	426.31%	13.44%	50.00%	
EQUITY FUNDS⁵								
Top 20	1-Oct-00	1.52%	11.84%	25.39%	500.88%	22.75%	66.67%	0.92%
FTSE/JSE Top 40 Index		(28.64%)	3.27%	19.78%	225.63%	14.44%	41.67%	inc. performance fee of -0.23%
Equity	15-Apr-96	(8.27%)	8.31%	21.53%	674.55%	16.82%	50.00%	1.42%
FTSE/JSE Shareholder Weighted All Share Index		(17.58%)	5.93%	20.66%	333.41%	11.78%	50.00%	
INTERNATIONAL RAND-BASED FUNDS⁵								
Optimum Growth	15-Mar-99	(18.54%)	(1.13%)	9.46%	242.66%	12.77%	33.33%	1.34%
CPI + 5% per annum		12.70%	13.53%	11.76%	217.89%	11.94%	91.67%	
Global Emerging Markets Flexible ⁷ : US\$ return	28-Dec-07	(16.75%)	-	-	(22.29%)	(15.48%)	50.00%	
MSCI – Emerging Markets (US\$)		(27.82%)	-	-	(36.22%)	(25.91%)	33.33%	
World Equity [ZAR] ⁷ : US\$ return	1-Aug-97	(19.63%)	(4.64%)	2.33%	78.98%	5.01%	33.33%	
MSCI World Index (US\$)		(29.01%)	(7.48%)	0.57%	15.73%	1.23%	33.33%	
Latitude [ZAR] ⁷ : US\$ return	22-Sep-08	-	-	-	12.42%	12.42%		
50 Libor/50 Euribor (US\$)		-	-	-	6.68%	6.68%		
FIXED-INTEREST FUNDS⁵								
Strategic Income	2-Jul-01	11.86%	8.77%	9.70%	141.96%	11.68%	91.67%	1.13%
BEASSA All Bond Index (1–3 years)		16.76%	9.25%	8.79%	110.22%	9.73%	100.00%	
Bond	1-Aug-97	19.02%	7.75%	9.22%	329.52%	13.01%	58.33%	0.87%
BEASSA All Bond Index		19.25%	7.71%	9.30%	335.94%	13.15%	58.33%	
Money Market	1-Oct-99	11.47%	10.14%	8.93%	149.15%	9.82%	100.00%	0.35%
Short Term Fixed Interest 3-Month Index		11.08%	10.02%	8.88%	149.81%	9.85%	100.00%	

For performance information of full fund range, visit www.coronation.com.

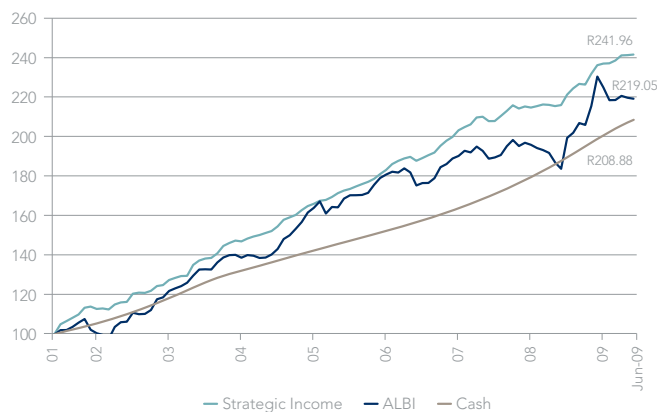
CORONATION TOP 20
R100 INVESTED AT LAUNCH



CORONATION BALANCED PLUS AND CAPITAL PLUS
R100 INVESTED IN 2001



CORONATION STRATEGIC INCOME
R100 INVESTED AT LAUNCH



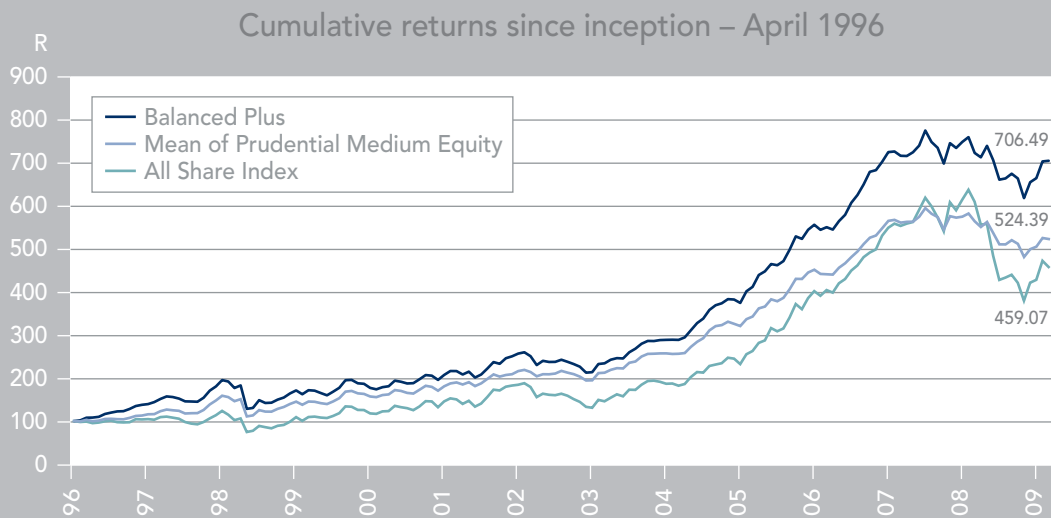
CORONATION WORLD EQUITY
R100 INVESTED AT LAUNCH



CORONATION BALANCED PLUS

THE POWER OF ASSET ALLOCATION

The Coronation Balanced Plus Fund is the No. 1 balanced fund in the country since its inception. With a return of 16% p.a. it has beaten all other funds in its category and the equity market. It is also the top balanced fund over the five-year period to end June 2009.



If you had invested R100 000 in the Coronation Balanced Plus Fund when it was launched in April 1996 your money would have grown to R706 486 today, which is more than 30% ahead of the benchmark, and 50% ahead of the All Share Index.

Coronation Balanced Plus is a portfolio of Coronation's best investment views across equities, bonds and cash. It is Regulation 28 compliant which makes it a perfect vehicle for retirement savings.

To invest, call 0800 22 11 77, visit coronation.com or speak to your financial advisor.

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