

After a fairly quiet and looking to be disappointing last quarter, the financial sector really woke up in December. Enthusiasm for the sector had been dampened by concerns over the Pension Fund Adjudicator attacks on the life sector and the banks were out of favour due to expectations of rate hikes and the effect that this would have had on their earnings. However December brought about a change in heart at the South African Reserve Bank as the Governor signalled a change in thinking on where inflation was heading and as a result a rate hike seems no longer to be on the cards. In addition December also brought about a resolution to the ongoing crises in the life assurance industry, with the life sector as a grouping agreeing to minimum benefit pay outs where investment products are terminated early.

Both these events gave impetus to a late rally in December which saw the FTSE/JSE Financial Index up 10.1% for the month and giving the quarter a respectable return of 11.7%. Life assurers managed to outperform the banking sector for the quarter for the first time in a long time due to the improved sentiment as well as the very strong equity markets which should boost their earnings. The Coronation Financial Fund returned 11.4% for the quarter, in line with the overall index performance.

The sharp appreciation in banks in December was led by FirstRand/RMB which increased nearly 17% in the month! We went into December with a large position here but have now started trimming as we believe the appreciation to be overdone in the short term. Another stock we have been reducing is Sanlam. We have held a large stake in the business for a long time but now feel that there is more potential in other financial stocks.

On the purchasing side we topped up some more Liberty Life earlier in the quarter and have now also built up a sizeable position in the Discovery Group. Liberty presented their plans for the integration of the Capital Alliance group during November and this was well received by the market. At the margin we added to our positions in Absa, Standard Bank and Remgro when we felt there was value in the share price.

During the quarter an offer was made for our stake in VenFin by the Vodacom group. Due to the extremely attractive price offered we have accepted and this position will be liquidated early in 2006 and we will look to redeploy the cash as and when we find compelling investment opportunities.

The investment case for the financial sector remains one of strong earnings growth due to good market fundamentals. Bank asset growth continues unabated with no real credit risk on the horizon. The life sector, now that the regulatory issues are behind them, should stand to benefit handsomely from the great returns generated in the equity markets and a return to equity investments by the investing public. On this basis we remain optimistic about the potential return from financials over our investment horizon.

**Neville Chester & Neill Young**  
Portfolio Managers

Fund category	Domestic Equity Financial
Launch date	1 July 1998
Portfolio manager	Neville Chester & Neill Young
Fund size	R970.1 million
NAV	2071.29 cents
Annual management fee	1.25% (ex VAT)

Benchmark	FTSE/JSE Africa Financial Index
Fund description	Invests in a broad range of financial shares, including banks, insurance and investment companies.

### ASSET AND SECTOR ALLOCATION

Sector	31 Dec 2005	30 Sep 2005
<b>Domestic Assets</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Equity</b>	<b>89.60%</b>	<b>92.54%</b>
Financials	89.60%	92.39%
Specialist Securities	0.00%	0.15%
Listed Property	4.16%	5.67%
Cash	6.24%	1.79%
<b>International Assets</b>	<b>0.00%</b>	<b>0.00%</b>

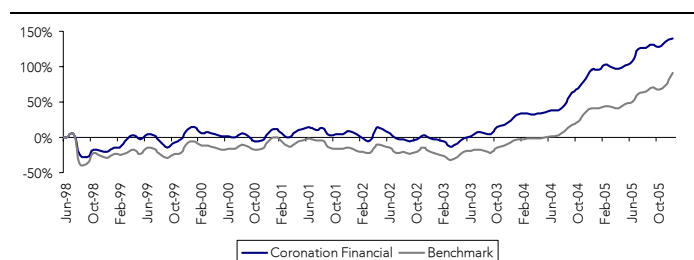
### PERFORMANCE & RISK STATISTICS

	Fund	Benchmark
Latest 12 months	32.02%	34.69%
Latest 36 months (annualised)	37.44%	34.26%
Latest 60 months (annualised)	19.37%	14.97%
Since inception (annualised)	13.43%	8.97%
Annual deviation since inception	22.68%	25.75%
Sharpe ratio	0.21	0.05
Maximum gain	53.63%	80.40%
Maximum drawdown	-30.89%	-39.78%
Positive months	58.89%	60.00%

### TOP 10 SHARE HOLDINGS

As at 31 December 2005	% of Fund
Standard Bank Group Ltd	18.93%
FirstRand Ltd	12.59%
Liberty Group Ltd	10.80%
Absa Group Ltd	10.22%
Remgro Ltd	9.24%
Metropolitan Holdings Ltd	8.82%
VenFin Ltd	6.22%
Discovery Holdings Ltd	6.09%
Liberty International plc	4.16%
Alexander Forbes Ltd	2.07%
<b>Total</b>	<b>89.14%</b>

### CUMULATIVE PERFORMANCE SINCE INCEPTION



### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2005	01/10/2005	34.72	32.20	2.52
31/03/2005	01/04/2005	11.18	10.55	0.63
30/09/2004	01/10/2004	25.12	23.98	1.14
31/03/2004	01/04/2004	16.58	15.98	0.60

### ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	32.02%	34.69%	-2.67%
2004	57.09%	52.38%	4.71%
2003	25.19%	17.92%	7.28%
2002	-9.27%	-8.24%	-1.03%
2001	2.90%	-9.53%	12.43%
2000	-5.55%	2.93%	-8.48%
1999	42.51%	29.83%	12.68%
1998	-21.13%	-29.04%	7.91%

### PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
Fund 2005	0.30%	3.52%	-2.03%	-0.91%	2.54%	3.02%	8.57%	0.52%	2.04%	-1.46%	3.14%	9.55%	32.02%
B'mark 2005	-0.44%	2.83%	-1.29%	-1.39%	4.45%	2.37%	7.76%	1.35%	3.58%	-1.29%	2.77%	10.16%	34.69%
Fund 2004	6.16%	1.43%	-1.40%	1.11%	1.91%	1.47%	0.37%	5.50%	11.84%	3.26%	8.22%	6.93%	57.09%
B'mark 2004	3.85%	1.12%	1.20%	0.49%	1.31%	1.11%	0.83%	5.57%	9.46%	2.70%	10.85%	5.00%	52.38%