

*"Once more into the breach, dear friends, once more; Or close the wall up with our English dead! In peace there's nothing so becomes a man As modest stillness and humility: But when the blast of war blows in our ears, Then imitate the action of the tiger; Stiffen the sinews, summon up the blood, Disguise fair nature with hard-favour'd rage; Then lend the eye a terrible aspect."* Henry V, Act 3, Scene 1

Clichés are what they are because they distil a truth other words do not capture. The holidays are over. Looking back, the returns of past periods fill us with a warm glow:

Over the quarter, the fund return was 7.3% versus 5.7% for the FTSE/JSE Industrial Index. For 12 months to December the fund returned 35.0%, and the index 35.5%. Over a three-year period, compound annual numbers were 39.9% and 35.5%.

It is in looking forward, though, that we need to stiffen the sinews and lend the eye a terrible aspect. We have been warning in recent commentaries that prospective returns are likely to be lower. By and large, we share the general optimism about the benign economic environment. We still believe that equities remain the best asset class by far. Yet our optimism is significantly tempered by valuation considerations. Increasingly we have to remind ourselves of the old truth that the only part of the return we as investors can control, is the entry price. When one looks at the rating of the market, it does not appear worrying. Of much greater concern to us is the high level of earnings in many companies. The present levels of profitability come against the backdrop of an unprecedented economic expansion, in terms of both magnitude and duration. Certainly the most critical investment variable at this point in the cycle is how high the present earnings of a company are, relative to what they will be in an average year.

This approach of 'normalised earnings' promises to keep us from being carried away by too much optimism about the present cycle and forces a focus on the long-term value of shares. While its rigorous application guarantees that we keep an adequate margin of safety and hence protect capital, it may cause us to exit stocks in the early phase of a valuation overshoot. This is a risk we must take.

Characteristically, our trading activity was subdued. We established new positions in two companies, Afrox and Omnia. The investment case for the two could not be more different. Afrox is an excellent company whose premium rating to the market could justifiably be even higher. As we move into an environment of overblown earnings, here is a company that will maintain its profitability come fat times or lean. Omnia is a well managed cyclical company presently facing very weak earnings, mostly as result of maize overproduction causing weakness in fertilizer sales. We believe its normal earnings level to be well above that presently being achieved. On the sales front, we grudgingly accepted the offer to minorities in Frontrange, and exited this investment. While we were disappointed that full value was not achieved, our hand was forced by major shareholders making the take-out a fait accompli.

During the quarter, good performers for the fund were VenFin, Mr Price and Remgro, while the tail end was brought up by Tiger Wheels, Delta Electrical and Super Group.

Needless to say, we were very pleased with the events at VenFin. Many is the time we had to resist ditching this boring value situation in favour of more sexy plays. This proves again that 'modest stillness and humility' are the allies of the long-term investor. May the word 'catalyst' be banished from the halls of Coronation forever!

We were also very pleased with the strong performance of Mr Price during the quarter. Often featured in our past commentaries, we have held a very large position in this counter for a long time, and seen it appreciate greatly. We still believe in substantial potential here, as the store chain expands and credit markets are accessed.

Lastly, it is with a touch of sadness that we see Karl Leinberger move on to other duties. His wise and dispassionate counsel is thankfully only a corridor away. This writer does look forward to fund commentaries without all the juicy bits edited out by Karl's dour pencil. Pallavi Ambekar joins the fund, seamlessly formalising a situation already existing in practice. Welcome to her. May she summon up the blood, and imitate the action of the tiger(ess).

**Dirk Kotzé & Karl Leinberger**  
Portfolio Managers

Fund category	Domestic Equity Industrial
Launch date	1 July 1998
Portfolio manager	Dirk Kotzé & Karl Leinberger
Fund size	R77.4 million
NAV	3378.33 cents
Annual management fee	1.00% (ex VAT)

Benchmark	FTSE/JSE Africa Industrial Index
Fund description	Invests in a broad range of domestic industrial shares.

### 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>97.67%</b>	<b>97.86%</b>
Basic Industries	10.53%	5.71%
General Industrials	1.34%	2.14%
Cyclical Consumer Goods	5.89%	5.72%
Non Cyclical Consumer Goods	13.94%	14.88%
Cyclical Services	50.35%	52.24%
Non Cyclical Services	5.35%	5.37%
Financials	10.27%	9.66%
Information Technology	0.00%	2.14%
<b>Cash</b>	<b>2.33%</b>	<b>2.14%</b>
<b>International Assets</b>	<b>0.00%</b>	<b>0.00%</b>

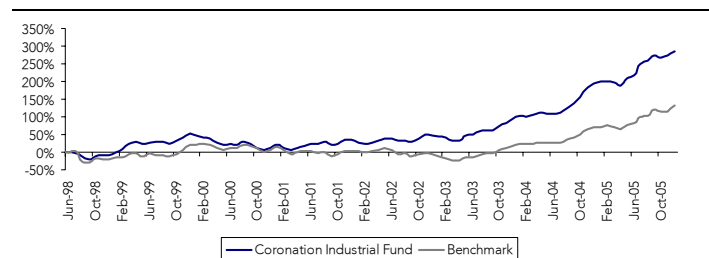
### PERFORMANCE & RISK STATISTICS

	Fund	Benchmark
Latest 12 months	35.03%	35.46%
Latest 36 months (annualised)	39.91%	35.48%
Latest 60 months (annualised)	28.88%	16.87%
Since inception (annualised)	20.27%	11.85%
Annual deviation since inception	18.11%	22.73%
Sharpe ratio	0.58	0.14
Maximum gain	55.54%	61.72%
Maximum drawdown	-21.40%	-29.29%
Positive months	62.22%	61.44%

### TOP 10 SHARE HOLDINGS

As at 31 December 2005	% of Fund
Naspers Ltd – N ordinary shares	8.28%
Mr Price Group Ltd	6.69%
Woolworths Ltd	5.68%
Remgro Ltd	5.53%
VenFin Ltd	4.74%
Edgars Consolidated Stores Ltd	4.61%
SABMiller plc	4.07%
AVI Ltd	3.72%
Famous Brands Ltd	3.37%
Tiger Wheels Ltd	3.35%
<b>Total</b>	<b>50.04%</b>

### CUMULATIVE PERFORMANCE SINCE INCEPTION



### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2005	01/10/2005	36.67	36.67	0.00
31/03/2005	01/04/2005	26.35	25.52	0.83
30/09/2004	01/10/2004	14.97	13.50	1.47
31/03/2004	01/04/2004	9.11	1.37	7.74

### ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	35.03%	35.46%	-0.42%
2004	53.35%	46.59%	6.76%
2003	32.27%	25.24%	7.03%
2002	8.15%	-10.37%	18.51%
2001	20.06%	-2.20%	22.26%
2000	-26.27%	-10.82%	-15.46%
1999	67.70%	50.17%	17.53%
1998	-9.24%	-20.66%	11.42%

### PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
Fund 2005	1.26%	0.15%	-1.32%	-2.48%	6.82%	2.95%	10.56%	2.55%	3.47%	-1.41%	1.46%	7.22%	35.03%
B'mark 2005	0.21%	2.18%	-2.16%	-4.46%	7.51%	3.86%	8.96%	1.67%	8.23%	-2.56%	0.86%	7.58%	35.46%
Fund 2004	6.01%	-2.32%	3.24%	2.57%	-1.58%	0.21%	1.66%	5.19%	6.85%	7.73%	9.72%	4.99%	53.35%
B'mark 2004	4.91%	-0.04%	1.87%	1.69%	-0.34%	-0.36%	0.34%	6.04%	4.71%	6.28%	10.41%	3.94%	46.59%