

The Coronation Financial Fund returned 4.7% for the second quarter of the year. Over a 12-month period, the fund has delivered a 51% return, which compares favourably with the index return of 48%. Similarly, over a three-year period, the fund has produced a compound annual return of 25% against an index return of 21%.

The banks outperformed for the quarter along with Remgro, which benefited from continued rand weakness. The life insurers delivered a negative return, giving back the gains made in the first quarter.

The top performer amongst the banks was Absa, driven by eventual finality on the price at which Barclays was to buy its majority stake. As we write this the deal has received High Court approval, and this will require the fund to sell 32% of its Absa shares. We believe that this is a fair price at which to dispose of a third of our holding given the benefits that will accrue to the remaining two thirds. On completion of the transaction, Barclays will hold 52.5% of Absa, below its stated intention of 56.5%. This should provide an underpin to the price as Barclays buys additional shares in the market. Nedbank was the underperforming bank for the quarter, and given our preference for the sector and that we are at our maximum limits on the other three of the big four banks, we have made use of periods of price weakness to increase our Nedbank holding to 1%. Banks now make up 50% of the value of the fund.

The quarter was a disappointing one for the life insurers. The well publicised rulings by the Pension Fund Adjudicator against the life companies weighed on share prices. This is an issue that we raised in our previous quarterly report, and one that in all likelihood will continue to receive more airtime, and negatively impact on new business for the remainder of the calendar year. The practice of penalising policyholders for unrecouped upfront costs is in effect an unequal sharing of risk between insurer, client and intermediary, and is clearly an unsustainable business practice. The life companies have for some time now been working to reduce their cost bases to provide a better value proposition to clients, and the actions of the adjudicator are likely to expedite this. The fund's largest insurance exposure is to Metropolitan which, given its market and business mix, is far less exposed to the issue than the other life companies - particularly Liberty and Old Mutual, to which the fund has relatively little exposure. Having said this, in our view the impact on insurance companies' embedded values is unlikely to exceed 5% in a worst case scenario, yet the sector has declined nearly 3% in a quarter in which the market has returned 7%, and this presents us with some opportunity.

Amongst the other financial shares, Alexander Forbes was a strong contributor. Financial results released during the quarter indicated that the company's difficulties are largely behind it despite the softening underwriting market, and the value in the share became more apparent. We have been of the view for some time now that the Discovery share price had run ahead of what was fair value, and our lack of exposure to the share weighed on performance. Towards the end of June the company put out a statement effectively confirming our view, and the share price has subsequently retraced closer to what we consider to be a reasonable valuation.

We continue to favour banks over insurers – strong credit extension numbers, good credit quality and a positive outlook for the domestic economy will continue to drive earnings. Insurers are likely to continue to face short-term headwinds, but we intend to take advantage of periods of unwarranted pessimism.

Neville Chester & Neill Young
Portfolio Managers

Fund category	Domestic Equity Financial
Launch date	1 July 1998
Portfolio manager	Neville Chester & Neill Young
Fund size	R830.41 million
NAV	1701.90 cents
Annual management fee	1.25% (ex VAT)

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

ASSET AND SECTOR ALLOCATION

Sector	30 Jun 2005	31 Mar 2004
Domestic Assets	100.00%	100.00%
Equity	93.75%	99.88%
Financials	93.75%	94.25%
Specialist Securities	0.00%	0.12%
Listed Property	5.60%	5.51%
Cash	0.65%	0.12%
International Assets	0.00%	0.00%

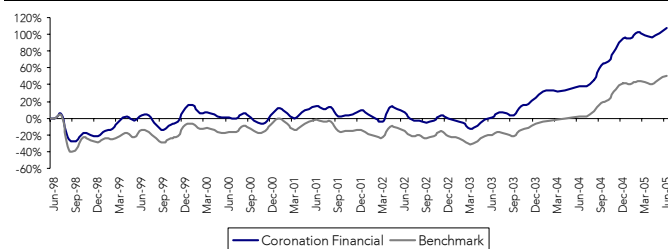
PERFORMANCE & RISK STATISTICS

	Fund	Benchmark
Year to date	6.48%	6.55%
Latest 12 months	50.68%	48.41%
Latest 36 months (annualised)	24.89%	21.11%
Latest 60 months (annualised)	15.52%	12.60%
Since inception (annualised)	10.99%	6.04%
Annual deviation since inception	23.06%	26.26%
Sharpe ratio	0.09	-0.07
Maximum gain	53.63%	80.40%
Maximum drawdown	-30.89%	-39.78%
Positive months	57.14%	58.33%

TOP 10 SHARE HOLDINGS

	% of Fund
Standard Bank Group Ltd	20.90%
FirstRand Ltd	15.83%
Absa Group Ltd	12.31%
Metropolitan Holdings Ltd	9.32%
Sanlam Ltd	8.41%
Remgro Ltd	7.45%
Liberty International plc	5.60%
Alexander Forbes Ltd	5.23%
VenFin Ltd	4.37%
African Life Assurance Ltd	3.06%
Total	92.48%

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
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
30/09/2003	01/10/2003	17.39	16.19	1.20

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
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%

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2005	0.30%	3.52%	-2.03%	-0.91%	2.54%	3.02%						
B'mark 2005	-0.44%	2.83%	-1.29%	-1.39%	4.45%	2.37%						
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%
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%