

After a very strong 2004 for financial stocks, the sector took a breather in the first quarter, delivering a marginally positive return of 1.1%. On a rolling 12-month period the fund has generated a total return of 51%, which compares well with the 45% from the FTSE/JSE Financials Index. For the rolling three-year period the fund has achieved a 27% p.a. return, which again compares favourably with 22% from the index.

The benign performance of the sector was driven partly by the weakening rand, which resulted in some switching into the resources sector of the market. At the end of 2004 the currency stood at R5.65 to the US dollar, a level which we felt was unsustainable given economic fundamentals. This prompted us to increase our exposure during the quarter to those stocks with some gearing to a weakening rand – i.e. Liberty International, Remgro and, to a lesser extent, Old Mutual.

The banks were the laggards during the first quarter of 2005, with a -1.6% return. This is despite both FirstRand and Standard Bank reporting good results during the quarter, and a very welcome increase in the dividend payout ratio from the latter. We made use of the weakness in the Standard Bank share price to increase our holding in the stock from 16% to 20% of the portfolio. Nedcor's results again highlighted that the internal issues that have dogged the bank since its merger with BoE have caused it to lag its competitors in an environment very conducive to banks. We have an insignificant holding in the stock, a position that has contributed to fund performance, and remain of the view that at current prices, Nedcor holds no special attraction over the other banks, yet still carries more risk. Absa's share price continues to be capped by the uncertainty surrounding the price at which Barclays will bid for a majority share of the bank. It would seem that regulatory approval is imminent, pending the compliance with certain conditions by Barclays. This we believe should go some way to unlocking the value inherent in the stock.

The insurers delivered a 3.6% return for the quarter, and we made use of the relative strength to take some profit on our insurance holdings with which to fund some of the positions mentioned above. The 2004 results reported in the quarter were a mixed bag – the strong equity markets boosted embedded values, but new business flows were mixed. Liberty and Metropolitan performed well, while Sanlam and the South African operations of Old Mutual struggled. Press coverage given to the rulings by the Pension Fund Adjudicator against some of the larger insurers' RA schemes will, in all likelihood, have some impact on the sales of savings product in the first half of the year. More important, however, is the issue of the potential impact on the valuations of the insurers – this is an area which still requires accurate quantification, although it should be noted that we do not expect the impact to be material. Our holdings in Metropolitan, with its R1 special dividend at the beginning of the period, and African Life, which moved up strongly on expectations of a buy-out, contributed nicely to the fund's performance during the quarter.

We continue to believe that there is value in the financial sector, especially amongst the banks which we favour over the insurers, and which trade on between 8.1x and 8.9x 12-month forward p/e multiples and a 4% dividend yield. The life assurance sector is now trading in line with our adjusted EV, and on a 4.5% dividend yield. The return of excess capital remains a key component of our investment case for the sector. The banks have the capacity to reduce their dividend covers further, Sanlam is likely to distribute at least a portion of the proceeds on the disposal of its stake in Absa, Metropolitan still sits on excess capital in our view, and Liberty has the potential to optimise its capital structure if and when it introduces debt onto its balance sheet.

Neville Chester & Neill Young
Portfolio Managers

Fund category	Domestic Equity Financial
Benchmark	FTSE/JSE Africa Financials Index
Launch date	1 July 1998
Portfolio manager	Neville Chester & Neill Young
Fund size	R851.8 million
NAV	1636.86 cents
Annual management fee	1.25% (ex VAT)

Fund description

Invests in a broad range of financial shares, including banks, insurance and investment companies.

ASSET AND SECTOR ALLOCATION

Sector	31 Mar 2005	31 Dec 2004
Domestic Assets	100.00%	100.00%
Equity	99.88%	94.50%
Financials	94.25%	94.50%
Specialist Securities	0.12%	0.00%
Listed Property	5.51%	3.43%
Cash	0.12%	2.07%
International Assets	0.00%	0.00%

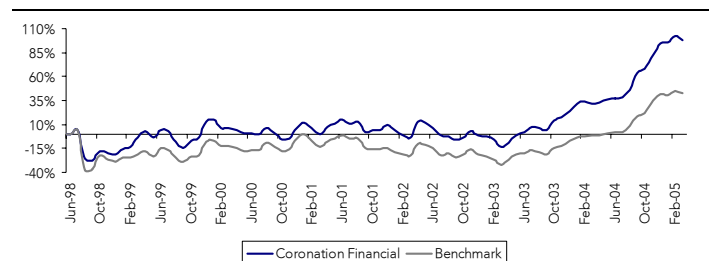
TOP 10 SHARE HOLDINGS

	% of Portfolio
Standard Bank Group Ltd	19.95%
FirstRand Ltd	15.45%
Absa Group Ltd	10.92%
Sanlam Ltd	8.74%
Metropolitan Holdings Ltd	8.36%
Remgro Ltd	7.23%
Liberty International plc	5.50%
VenFin Ltd	4.18%
African Life Assurance Co Ltd	4.03%
Old Mutual plc	3.83%

RISK STATISTICS

	Fund	Benchmark
March 2005	-2.03%	-1.29%
YTD	1.72%	1.05%
Annual return since inception	10.67%	5.43%
Annual deviation since inception	23.46%	26.69%
Sharpe ratio	0.07	-0.09
Maximum gain	53.63%	80.40%
Maximum drawdown	-30.89%	-39.78%
Positive months	56.79%	58.02%

PERFORMANCE SINCE INCEPTION



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%

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

MONTHLY PERFORMANCE RETURNS FOR THE LAST THREE YEARS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2005	0.30%	3.52%	-2.03%									
B'mark 2005	-0.44%	2.83%	-1.29%									
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%
Fund 2003	-1.79%	-3.33%	-7.60%	4.42%	8.18%	3.20%	5.59%	-1.09%	-2.06%	10.09%	2.48%	6.08%
B'mark 2003	-2.63%	-3.93%	-7.31%	6.56%	8.55%	1.70%	3.16%	-2.65%	-2.76%	9.32%	2.60%	5.55%