

After a flat second quarter, the industrial market surged ahead once more in the third quarter, with the Coronation Industrial Fund returning 17.3%. For the 12 months to September the fund has returned 56.2% versus 56.3% for the FTSE/JSE Industrials Index. The compound annual return over three years to end September is 42.1% for the fund and 34.7% for the index. On this point, it is worth noting that these three-year figures as at 30 June (reported last quarter) were 32% and 20%: an indication of how recent returns have boosted even the multi-year numbers. Perhaps a bit of expectation management is in order.

During the quarter our relative winners were Famous Brands, Group Five, Woolworths, Bidvest, Naspers, Primedia and Tiger Brands. Our relative losers were Delta Electrical, Tiger Wheels, AECI and Trencor, all of them (incidentally?) rand hedges.

It appears that domestic economic growth is holding up very well and might continue to keep the earnings base of the average industrial company fairly high. Our valuation approach continues to focus on what a particular company is likely to earn in an average or 'normal' year, as opposed to next year. Given that times are currently good, we appreciate that many companies are experiencing boom times in profitability. To the extent that such profits are better than normal, one must be wary of placing much value on the unsustainable part of the earnings.

Our view is that earnings bases are fairly full, even though the market is not yet overvalued as far as its rating is concerned. Our response to these macro variables has been to position the fund defensively, concentrating on higher quality earnings bases which are unlikely to suffer depletion once the economic cycle turns down. Such defensive earnings bases are to be found in companies with strong brands, dominant market positions, legislated monopolies or other forms of 'franchise value'. We continue to believe that the quality differential between the 'best quality' companies and the 'average' companies is too low, favouring investments at the quality end of the spectrum.

Trading activity remained modest. During the quarter we exited from Altech, a stock we acquired the previous quarter. This uncharacteristic about-turn demands an explanation. Altech was a potentially attractive investment, being offered at around fair value at the time, but with a variety of 'blue sky' options in the telecoms space added for free. The souring of the Econet Wireless relationship impacted this optionality; without it the investment case no longer offered sufficient upside over and above the existing business value.

We also exited from Netcare. We acquired this position at a time when regulatory concerns in the health industry were high, depressing the rating. With the rating having staged a full recovery, this value has been realised.

On the buy side, we established a position in Richemont for the first time in a number of years. European equity markets generally have been derating, and Richemont has been 'growing into its rating' for some time. It is also our sense that the trading environment for luxury goods companies has improved. While the valuation still does not offer spectacular upside, we have enough conviction to invest and will be open to opportunities to build this position.

Our only other action on the buy side was to acquire a position in Famous Brands. Like most companies operating in the franchising environment, this company offers high returns and attractive cash flow characteristics. In this case these attractions are enhanced by strong volume growth and store roll-outs. Given that the group has a high fixed cost base, the volume growth benefits earnings significantly through the high operating leverage. Famous Brands also follows a strategy of integrating into its own supply chain, by investing in proprietary facilities for burger patties, rolls and the like. We believe that this business model will develop into a very high quality earnings stream in the years ahead.

In keeping with our theme of quality earnings streams, it is perhaps appropriate that we restate our investment case for SABMiller. Through a mixture of organic growth, acquisitions and turnaround capability, this group has emerged as the best portfolio in global brewing. It has a balanced exposure to beer's biggest profit pools on the one hand, and fast-growing emerging markets on the other. By historical accident, global investors have mis-priced emerging market risks in the brewing sector in favour of the mature and shrinking incumbents in developed markets. Recent results from European peers have shown just how tough European markets have become. The valuation error is gradually being corrected, while SABMiller's exposure to growth markets continues to deliver strong earnings growth. The combination of growth and prospective further rerating, makes the stock a compelling proposition.

**Dirk Kotzé & Karl Leinberger**  
Portfolio Managers

Fund category	Domestic Equity Industrial
Launch date	1 July 1998
Portfolio manager	Dirk Kotzé & Karl Leinberger
Fund size	R68.7 million
NAV	3186.72 cents
Annual management fee	1.00% (ex VAT)

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

### ASSET AND SECTOR ALLOCATION

Sector	30 Sep 2005	30 Jun 2005
<b>Domestic Assets</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Equity</b>	<b>97.86%</b>	<b>99.24%</b>
Basic Industries	5.71%	6.50%
General Industrials	2.14%	5.57%
Cyclical Consumer Goods	5.72%	2.07%
Non Cyclical Consumer Goods	14.88%	16.30%
Cyclical Services	52.24%	49.54%
Non Cyclical Services	5.37%	7.78%
Financials	9.66%	9.10%
Information Technology	2.14%	2.38%
<b>Cash</b>	<b>2.14%</b>	<b>0.76%</b>
<b>International Assets</b>	<b>0.00%</b>	<b>0.00%</b>

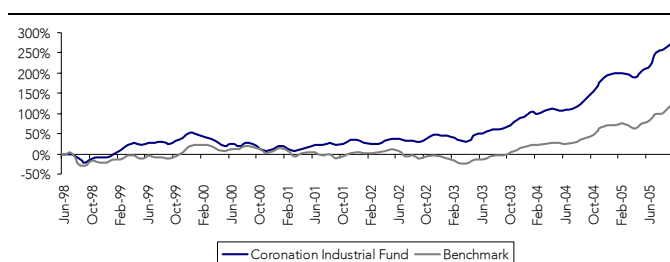
### PERFORMANCE & RISK STATISTICS

	Fund	Benchmark
Latest 12 months	56.25%	56.27%
Latest 36 months (annualised)	42.08%	34.71%
Latest 60 months (annualised)	24.59%	13.32%
Since inception (annualised)	19.87%	11.43%
Annual deviation since inception	18.27%	22.95%
Sharpe ratio	0.55	0.12
Maximum gain	55.54%	61.72%
Maximum drawdown	-21.40%	-29.29%
Positive months	62.07%	64.37%

### TOP 10 SHARE HOLDINGS

As at 30 September 2005	% of Fund
Naspers Ltd – N Ordinary Shares	8.60%
Woolworths Ltd	6.32%
Remgro Ltd	5.87%
Mr Price Group Ltd	5.47%
SABMiller Plc	4.94%
AVI Limited	4.22%
Venfin Ltd	3.79%
Mvelaphanda Group Ltd	3.32%
Peermont Global Ltd	3.31%
Primedia Ltd – N Ordinary Shares	3.24%
<b>Total</b>	<b>49.08%</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
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%				25.90%
B'mark 2005	0.21%	2.18%	-2.16%	-4.46%	7.51%	3.86%	8.96%	1.67%	8.23%				28.12%
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%