



Source: Business Day

"... to fiercer, weightier battles give expression" (from "Adieu to a Soldier" by Walt Whitman) was how we ended our last comment and boy were we right!

Hurricane Katrina was the eleventh named tropical storm, fourth hurricane, third major hurricane, and first Category 5 hurricane of the 2005 Atlantic hurricane season. It made landfall on 29 August along the Central Gulf Coast near New Orleans, Louisiana, as a Category 4 storm. Katrina resulted in breaches of the levee system that protected New Orleans from Lake Pontchartrain, and most of the city was subsequently flooded by the lake's waters. This and other major damage to the coastal regions of Louisiana, Mississippi, and Alabama made Katrina the most destructive and costliest natural disaster in the history of the United States! She, along with her sister Rita, significantly impaired the Gulf of Mexico installed base of oil production and land-based US refining capacity sending the oil price through the roof.

The impact of higher anticipated energy costs then led to an assumed higher cost of production for everything and an assumed uncontrollable level of inflation which further fanned the flames under the commodity complex fire – including gold where charts highlighting how cheap gold was relative to oil became de rigueur.

Did we manage to resist the call of the sirens? Pretty successfully I would say! The Coronation Resources Fund returned 20% for the quarter versus 24% for the FTSE/JSE Resources Index. Old faithfuls Sasol (36%), Impala Platinum (25%) and Mittal Steel (27%) contributed well.

The diversified miners underperformed the index, each delivering 21%. AECI (10%), Delta Electrical (flat) and AngloGold (15%) detracted with the latter underperforming the more geared plays of DRD (60%), Goldfields (24%) and Harmony (24%) which we do not own.

Not owning Sappi (1%) benefited our performance but not owning Kumba (70%) was most costly.

Small new positions were established in Western Areas at 1840 cents, Merafe at 58 cents (this position was tactically liquidated at 67 cents), and Scharrighuisen (a coal contract miner) at 462 cents. Afrox was bought at 2329 cents.

Let me leave you with a remedy for these turbulent times in which geopolitical upheaval and natural disasters when combined with the generally held "wisdom" of the market (stronger for longer) seeks to separate the unsuspecting from their hard won gains. The advice is this – conservative investors sleep well! A conservative investment is one most likely to conserve (i.e. maintain) purchasing power at minimum risk. I quote liberally from Philip A Fisher in "Conservative Investors Sleep Well", first published in 1975.

*"To be a truly conservative investment a company – for the majority if not all of its product lines – must be the lowest-cost producer ... It must also give promise of continuing to be so in the future. Only in this way will it give its owners a broad enough margin between costs and selling price to create two vital conditions:*

- 1. Sufficient leeway below the break-even point of most competition.*
  - a. When a bad year hits the industry ... losses for much of the higher cost competition will be ... great ...*
  - b. The surviving low-cost companies ... benefit from the increased production that comes to them ... but also increase prices as excess supplies stop ...*
- 2. The (resulting) greater than average profit margin should enable a company to earn enough to generate internally a significant part or perhaps all of the funds required for financing growth.*

*"Just as the degree to which a company is a low-cost producer increases the safety and conservatism of the investment, so in a boom period in a bullish market does it decrease its speculative appeal ... when hard times come ... If the high cost company doesn't go bankrupt, it is likely to produce another crop of badly hurt investors (or perhaps speculators who thought they were investors) who are sure something is wrong with the system rather than with themselves."*

This is why we own Impala Platinum, Sasol, Mittal Steel, AngloGold, Delta Electrical (and Anglo American over BHPBilliton)!

Sleep well.

**Hugo Nelson & Henk Groenewald**  
Portfolio Managers

Fund category	Domestic Equity Resources & Basic Industries
Launch date	1 October 1999
Portfolio manager	Hugo Nelson & Henk Groenewald
Fund size	R52.6 million
NAV	3941.72 cents
Annual management fee	1.00% (ex VAT)

<b>Benchmark</b>	Resources & Basic Industries Sector Mean
<b>Fund description</b>	Invests in a broad range of resource and basic industry counters that are affected by changes in the commodity cycle.

### 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>91.78%</b>	<b>96.51%</b>
Resources	66.87%	69.91%
Basic Industries	16.92%	14.39%
General Industrials	7.25%	7.96%
Financials	0.35%	0.57%
Specialist Securities	0.39%	0.57%
Futures	0.00%	3.11%
<b>Cash</b>	<b>8.22%</b>	<b>3.49%</b>
<b>International Assets</b>	<b>0.00%</b>	<b>0.00%</b>

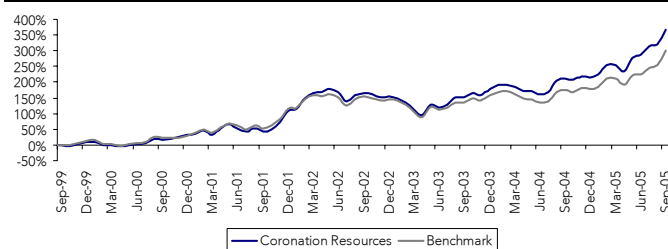
### PERFORMANCE & RISK STATISTICS

	Fund	Benchmark
Latest 12 months	49.54%	45.35%
Latest 36 months (annualised)	20.85%	16.41%
Latest 60 months (annualised)	31.76%	28.45%
Since inception (annualised)	29.28%	27.57%
Annual deviation since inception	24.04%	23.48%
Sharpe ratio	0.93	0.87
Maximum gain	93.37%	75.65%
Maximum drawdown	-23.81%	-23.54%
Positive months	62.50%	59.27%

### TOP 10 SHARE HOLDINGS

As at 30 September 2005	% of Fund
Anglo American Plc	20.41%
Sasol Ltd	17.87%
BHP Billiton Plc	11.66%
Mittal Steel South Africa Ltd	10.47%
Impala Platinum Holdings Ltd	10.07%
Delta Electrical Industries Ltd	7.25%
Anglogold Ltd	4.54%
AECI Ltd	3.83%
African Oxygen Ltd	2.62%
Sallies Ltd	1.60%
<b>Total</b>	<b>90.32%</b>

### CUMULATIVE PERFORMANCE SINCE INCEPTION



### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2005	01/10/2005	43.09	37.01	6.08
31/03/2005	01/04/2005	38.06	30.33	7.73
30/09/2004	01/10/2004	30.39	24.57	5.82
31/03/2004	01/04/2004	17.72	11.70	6.02

### ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2004	13.37%	6.94%	6.42%
2003	9.23%	6.09%	3.14%
2002	23.18%	16.02%	7.16%
2001	55.61%	70.68%	-15.07%
2000	20.09%	17.94%	2.15%
1999	10.92%	12.76%	-1.84%

### PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
Fund 2005	3.00%	8.37%	0.67%	-5.79%	12.94%	2.93%	6.16%	1.88%	10.92%				47.64%
B'mark 2005	2.39%	9.27%	-0.16%	-6.31%	10.93%	0.58%	6.69%	2.37%	13.30%				44.50%
Fund 2004	4.06%	0.40%	-2.70%	-4.08%	-0.55%	-2.77%	2.06%	13.19%	2.76%	-1.06%	2.98%	-0.59%	13.37%
B'mark 2004	3.64%	0.54%	-3.21%	-4.74%	-1.80%	-3.53%	1.59%	12.10%	2.57%	-2.45%	4.00%	-0.85%	6.94%