

Mid and small cap shares continued to perform very well during the quarter, with the fund up approximately 15% over this period. While we do not consider the magnitude of these performance gains to be sustainable going forward, we remain bullish on the environment in which smaller companies operate and the health of the South African economy. In terms of the fairly substantial re-rating in smaller companies since March 2002, we believe that the significant change in interest rates and inflation that we have seen, and the effect that this has on equity valuations, more than justifies this re-rating and believe that there is a little more to come.

During the quarter, our more significant purchases included new positions in Nu-World, Famous Brands, Datacentrix and AG Industries.

Nu-World is primarily an importer of branded consumer durables and has benefited from the surge in spending by the SA consumer. Despite the company having to deal with considerable deflation, it looks set to report another good set of results. The company has a phenomenal track record of earnings growth stretching back 13 years, yet only trades on a forward PE of less than 7.5 times.

Famous Brands is a franchising company (Steers and Wimpy being the main brands) with high returns and attractive cash flow characteristics. These attractions are enhanced by the current strong volume growth and store roll-outs. Given that the group has a high fixed cost base, the volume growth benefits earnings significantly through high operating leverage. An added attraction of the group is their ability to channel the food buying power of their franchised stores through their own food services business. They are in the process of doing this with Wimpy and is part of the reason why we expect strong earnings growth for the next couple of years.

Datacentrix and AG Industries both suffered significant share price declines after very poor results. In both cases, we believe that this has presented long-term investors with an opportunity to buy into undervalued companies at a time when pessimism abounds. As such, we established positions in both companies late in the quarter.

Our more significant sales during the quarter included Medi-Clinic, Mustek and Net 1 Applied Technologies (previously JSE-listed Aplitec). Although we like the characteristics of the hospital businesses, we could not justify continuing to hold Medi-Clinic based on its valuation. Net 1, now listed on Nasdaq, is a remarkable story of a South African company with over 95% of its earnings coming from this country, changing its listing to the US and immediately attracting a significantly higher rating. We made good returns from Net 1 and were happy to sell out of a company trading on a PE of around 28 times! Mustek is another company which has done very well for the fund, but which breached our assessment of fair value during the quarter. The company released a disappointing set of results, confirming our assertion that while the rand remains strong, the deflationary pressures in this industry will continue to put pressure on margins. We are also slightly concerned that the company may need to restructure their empowerment transaction because of an inability to meet the targets required for equity to be issued.

The Coronation Smaller Companies Fund remains attractive in our view and trades on a rolling one-year forward PE and dividend yield of 9.6 times and 4% respectively – both indicating good value in our opinion.

Alistair Lea
Portfolio Manager

Fund category Domestic Equity Smaller Companies
Launch date 1 April 1997
Portfolio manager Alistair Lea
Fund size R131.3 million
NAV 2606.29 cents
Annual management fee 1.00% (ex VAT)

Benchmark Composite benchmark: FTSE/JSE Africa Mid & Small Cap Indices
Fund description Invests in small and mid capitalisation companies, developing industries and recovery shares.

ASSET AND SECTOR ALLOCATION

Sector	30 Sep 2005	30 Jun 2005
Domestic Assets	100.00%	100.00%
Equity	93.82%	93.40%
Resources	4.41%	3.26%
Basic Industries	16.19%	14.54%
General Industrials	5.71%	8.19%
Cyclical Consumer Goods	6.75%	2.01%
Non Cyclical Consumer Goods	6.45%	9.39%
Cyclical Services	45.47%	39.12%
Financials	3.24%	5.51%
Information Technology	5.60%	11.38%
Cash	6.18%	6.60%
International Assets	0.00%	0.00%

TOP 10 SHARE HOLDINGS

As at 30 September 2005	% of Fund
Mobile Industries Ltd	6.97%
Mr Price Group Ltd	6.68%
Massmart Ltd	4.81%
Tanzanite One Group Ltd	4.41%
Tiger Wheels Ltd	3.42%
Oceana Group Ltd	3.40%
Nu-World Holdings Ltd	3.33%
Value Group Ltd	3.22%
Primedia Ltd – N Ordinary Shares	3.18%
Famous Brands Ltd	3.12%
Total	42.54%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2005	01/10/2005	19.43	17.36	2.07
31/03/2005	01/04/2005	28.63	24.88	3.75
30/09/2004	01/10/2004	25.11	20.85	4.26
31/03/2004	01/04/2004	22.16	18.47	3.69

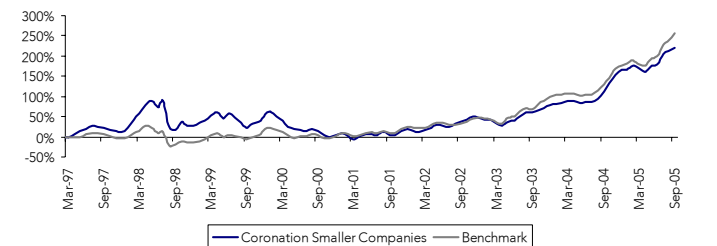
PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
Fund 2005	0.93%	3.79%	-3.05%	-2.85%	4.70%	2.12%	9.28%	1.94%	3.01%				21.06%
B'mark 2005	1.52%	3.03%	-3.53%	-0.76%	5.34%	2.76%	8.94%	3.06%	5.87%				28.83%
Fund 2004	1.07%	1.78%	2.19%	0.96%	-3.47%	1.69%	0.70%	3.46%	9.81%	8.68%	8.87%	5.05%	48.14%
B'mark 2004	2.34%	-0.08%	1.72%	-0.23%	-2.58%	0.82%	0.57%	4.83%	6.70%	7.42%	9.07%	3.18%	38.62%

PERFORMANCE & RISK STATISTICS

	Fund	Benchmark
Latest 12 months	50.47%	55.74%
Latest 36 months (annualised)	32.91%	39.27%
Latest 60 months (annualised)	22.98%	27.99%
Since inception (annualised)	14.70%	16.15%
Annual deviation since inception	24.17%	20.04%
Sharpe ratio	0.24	0.31
Maximum gain	67.21%	43.41%
Maximum drawdown	-37.63%	-30.55%
Positive months	61.76%	60.78%

CUMULATIVE PERFORMANCE SINCE INCEPTION



ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2004	48.14%	38.62%	9.52%
2003	20.64%	36.35%	-15.71%
2002	24.03%	16.86%	7.17%
2001	15.91%	22.82%	-6.91%
2000	-33.41%	-13.56%	-19.85%
1999	21.50%	36.96%	-15.46%
1998	13.19%	-9.36%	22.55%
1997	12.62%	-4.78%	17.40%