

The fund had a very good quarter, returning 9.4%. This brings the return for the calendar year to 22.4%. The annualised return over the past 5 years now stands at 18.4%, which is well above the performance target of inflation plus 4%.

Performance has been achieved within a very disciplined approach to risk management within the fund, as reflected by a low level of volatility over the return period. Fund risk has been lowered by, amongst other strategies, a low and flexible equity allocation, derivative based protection strategies and share selection with emphasis on the downside characteristics of every investment.

The past quarter continued to be a good environment for the fund, with financial and industrial shares performing much better than resource shares. Resource shares were adversely affected by a strong rand, which appreciated by 11% against the dollar over the quarter. We have for some time now preferred the valuations of largely domestic stocks, while we believe resource stock are generally overvalued. This positioning combined with good stock selection has benefited the fund significantly.

The main contributors to good equity performance over the past year have been old favourites and top holdings such as Implats, Naspers, Remgro, Sasol, Richemont and SABMiller, as well as domestic stocks such as Woolworths, Standard Bank, Edgars and Primedia. We continue to emphasise a long-term approach as a key philosophy in the management of the fund, and this has evidenced itself in a low level of portfolio turnover in the equity component of the fund. We calculate that annual equity portfolio turnover has averaged 24% over the past year, implying broadly that equity positions are typically held for more than 4 years. There has been limited activity in the equity portion of the fund recently, apart from small recent purchases including adding to Telkom, where we believe that overly negative perceptions of the fixed line business, potential competition and litigation issues have created a buying opportunity. While we recognise these to be important issues, we believe the share price has more than discounted these issues, and the valuation is attractive on a single digit p/e and expected dividend yield approaching cash return levels.

Two relatively new purchases are Zeder Investments and the JSE.

Zeder Investments was recently listed and provides access to unlisted investment opportunities that would otherwise be inaccessible. We believe these investments are under-researched and thus under-appreciated by the market. The main underlying investments in Zeder currently are Pioneer and KVV Investments which we believe are both attractive businesses. Pioneer is a FMCG company with well known brands such as Bokomo, Sasko, SAD, Ceres and Liquifruit, and trades at a large discount to comparable listed food companies. KVV is the holding company of Distell, which has a dominant position in several liquor categories in SA, significant exports that will benefit from a depreciating currency, and also trades at a significant discount to our valuation of the business. Zeder also invests in other unlisted agri companies, which are often inefficiently managed along cooperative lines, and thus provide attractive opportunity as they become more shareholder focused.

The JSE is also a recent listing and we believe an attractive opportunity. Exchanges globally are premium businesses as they are generally monopolies, strongly cash-generative and have great opportunities to grow revenue as markets rise over time, and new products and services are added. Even after significant price appreciation the JSE valuation still looks very attractive when compared with the global peer group.

Significant recent sales include MTN which we believe has become fully priced given the risk inherent in the investment, and also Makalani where we believe we can deploy fund capital more productively elsewhere.

We will continue to hedge a portion of the equity portfolio against price declines, and currently have 20% hedged not too far from current market levels.

The fund did very well from its investment in listed property, which returned 19% over the past quarter. While we believe the sector has become fully priced on aggregate, fundamentals for property distribution growth remain strong, and there are selective opportunities. One such opportunity is Acucap where we increased our position in a recent capital raising exercise. The company has a predominantly retail based exposure, with two large regional malls in Krugersdorp and Kempton Park. We believe they have an excellent management team, and the prospect to show good distribution growth through an economic cycle.

We have generally maintained a very low bond exposure throughout the year. Bonds returned a lacklustre 5.5% for the year, well below the cash return of 7.9%. We have managed to add value in the bond portfolio through trading the volatile environment in the past few months, but remain convinced that bonds are significantly overvalued. Our main exposure remains through inflation-linked bonds, which we have also been reducing, and corporate bonds where we can earn an attractive spread relative to government bonds.

The international component of the fund performed well over the year, on the back of a weak currency (9.4% depreciation against the dollar for the year), and a good performance from offshore managers. We aim to retain maximum offshore exposure going forward, and believe it continues to play an important part in reducing the risk profile of the overall fund.

The fund has performed very well over the past few years, but we must caution that it has generally been in a good market environment. Equity markets have shown great returns in each of the past four years, and listed property in the last eight. We remain confident in our investment philosophy, risk management and positioning of the fund to achieve our return objectives over time, but the level of returns achieved in the past three to four years are very unlikely to be repeated.

Edwin Schultz and Gavin Joubert
Portfolio Managers

Fund category	Domestic Asset Allocation Targeted Absolute and Real Return
Launch date	2 July 2001
Portfolio manager	Edwin Schultz and Gavin Joubert
Fund size	R3.1 billion
NAV	2208.39 cents
Annual management fee	1.25% (ex VAT)
Performance fee	10% ex VAT (above hurdle, capped at 1.5% p.a.)

Benchmark	CPIX
Performance fee hurdle	CPIX + 4%
Fund description	Focused on the preservation of capital over all rolling 12-month periods. Over the medium term, the objective is to produce real growth of at least 4% per annum.

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2006
Domestic Assets	85.70%
Equity	43.10%
Oil & Gas	3.22%
Basic Materials	4.80%
Industrials	3.19%
Consumer Goods	6.49%
Healthcare	2.75%
Consumer Services	17.83%
Telecommunications	3.40%
Financials	7.05%
Derivatives	(5.63%)
Preference Shares & Other Securities	0.11%
Real Estate	6.76%
Fixed Interest	7.20%
Cash	28.53%
International Assets	14.30%
Equity	9.54%
Fixed Interest	0.89%
Cash	3.87%

TOP 10 HOLDINGS

As at 31 December 2006	% of Fund
Coronation Global Equity Fund of Funds	5.64%
Naspers Ltd – N ordinary shares	4.58%
Woolworths Ltd	3.60%
Telkom SA Ltd	3.40%
Impala Platinum Holdings Ltd	3.35%
Sasol Ltd	3.22%
Standard Bank Group Ltd	3.05%
Remgro Ltd	2.87%
Network Healthcare Holdings Ltd	2.75%
Richemont Securities AG	2.30%
Total	34.76%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
31/12/2006	01/01/2007	9.58	3.26	6.32
30/09/2006	01/10/2006	21.43	13.00	8.43
30/06/2006	01/07/2006	11.89	2.87	9.02
31/03/2006	01/04/2006	20.71	10.92	9.79

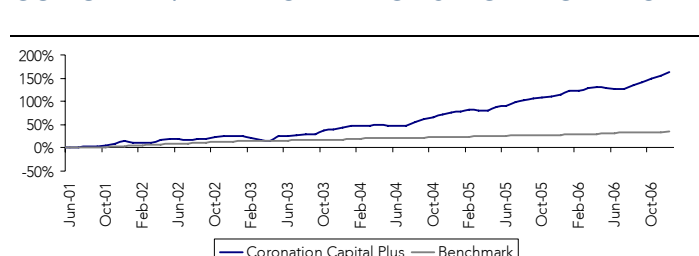
MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2006	3.70%	0.26%	2.55%	0.53%	-0.42%	-0.57%	0.00%	2.90%	2.45%	3.39%	2.83%	2.89%
B'mark 2006	0.73%	0.22%	0.43%	0.43%	0.57%	0.50%	1.07%	0.49%	0.28%	0.14%	-0.07%	0.30%
Fund 2005	0.77%	1.87%	-0.18%	-0.46%	4.50%	1.45%	3.85%	1.87%	2.08%	0.71%	1.25%	3.48%
B'mark 2005	0.46%	0.08%	1.06%	0.52%	0.22%	-0.22%	1.04%	0.37%	0.22%	0.22%	-0.07%	0.07%

PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	22.40%	5.22%
Latest 12 months	22.40%	5.22%
Latest 36 months (annualised)	22.75%	4.51%
Latest 60 months (annualised)	18.35%	5.59%
Since inception (annualised)	19.52%	5.55%
Annual deviation since inception	7.79%	1.44%
Downside deviation	3.85%	0.39%
Sharpe ratio	1.26	N/A
Maximum gain	29.49%	N/A
Maximum drawdown	-8.20%	N/A
Positive months	69.70%	N/A

CUMULATIVE PERFORMANCE SINCE INCEPTION



ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	23.22%	4.03%	19.19%
2004	22.49%	4.29%	18.20%
2003	15.93%	4.05%	11.89%
2002	8.30%	10.50%	-2.20%
2001	14.81%	2.53%	12.29%