

The fund experienced a strong quarter, delivering a 20.3% return against a 14.8% return for the index. Over one year, the fund's return is 28.9% and over 3 years a compound annual return of 38.8%.

The quarter was characterised by a very strong performance from the banks. Of that sector's 28% return for the 2006 calendar year, 23.8% was generated in the last 3 months. Particularly strong performances came from FirstRand Group and ABSA, both of which are well represented in the portfolio. In our June quarterly we commented on the almost indiscriminate sell-off in the banks following the first rate increase in the current tightening cycle, and the opportunity that presented. December saw the fourth 50 basis point increase for the year. We view where we are now as being close to the peak of the cycle – with the possibility of one further increase. The fact that advances growth has remained strong during this period while credit impairment has behaved in line with expectations would appear to have driven a welcome re-rating of the sector. Despite this the overall valuations of the banking sector are not looking particularly stretched (on an average 10.4x forward p:e and 4% dividend yield). With the prospect of good growth in corporate lending and a continuing benign environment on the retail side we believe mid- to high-teen earnings growth will be sustainable for the coming year.

The life insurers in contrast performed relatively poorly for the quarter with a 3.6% return. There was quite significant divergence of return within the sector, with Metropolitan and Discovery (again, well represented in the portfolio) performing strongly, and Sanlam (4% holding) and Old Mutual (no holding) performing poorly. Liberty remains a disappointing performer from our point of view. As noted in previous commentaries, we find this business attractively valued despite certain operational challenges that it is likely to face over the short to medium term. During the quarter, one of these obstacles was effectively removed: Liberty has proposed buying the 63% of the Stanlib asset management operations that it does not already own. The strategic rationale of the transaction is sound – life companies need to be indifferent between selling life-wrapped and non-life wrapped investment product (i.e. unit trusts), and to do this effectively they need to own 100% of their asset manager. What was of concern was the risk that Liberty would issue undervalued shares to pay for a business benefiting from the strongest bull run our market has seen in the last 25 years. In our view, the purchase price finally proposed is fair at an effective 0.8% of assets under management, and fewer shares will be issued than had been anticipated. The transaction results in the business being better positioned for the environment in which it operates, and immaterial EV per share dilution.

The strong run in financial stocks in the quarter means that for the third consecutive year the sector has delivered a total return in excess of 35%. This sort of move warrants some caution in forecasting future returns. However, we still see opportunities within the sector – particularly as we are close to the top of the interest rate cycle, the outlook for interest rate sensitive stocks should be positive over the next 12-month period. In the shorter term, one could see more volatility which we will use to add to specific holdings where valuations are attractive and as a result have slightly more cash than usual in the portfolio at the quarter-end.

**Neville Chester and Neil Young**  
Portfolio Managers

Fund category	Domestic Equity Financial
Launch date	1 July 1998
Portfolio manager	Neville Chester and Neill Young
Fund size	R1 billion
NAV	2596.23 cents
Annual management fee	1.25% (ex VAT)

Benchmark	FTSE/JSE Africa Financial Index
Fund description	Invests in a broad range of financial shares, including banks, insurance and investment companies.

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2006
<b>Domestic Assets</b>	<b>100.00%</b>
<b>Equity</b>	<b>96.99%</b>
Industrials	3.61%
Financials	93.38%
<b>Cash</b>	<b>3.01%</b>
<b>International Assets</b>	<b>0.00%</b>

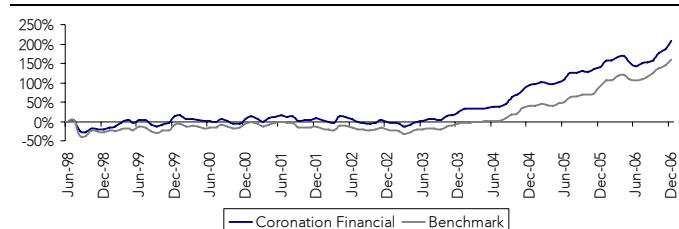
### PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	28.85%	35.83%
Latest 12 months	28.85%	35.83%
Latest 36 months (annualised)	38.86%	40.74%
Latest 60 months (annualised)	24.91%	24.71%
Since inception (annualised)	15.14%	11.84%
Annual deviation since inception	21.88%	24.63%
Sharpe ratio	0.18	0.03
Maximum gain	53.63%	80.40%
Maximum drawdown	-30.89%	-39.78%
Positive months	61.76%	62.75%

### TOP 10 HOLDINGS

As at 31 December 2006	% of Fund
Standard Bank Group Ltd	18.58%
Liberty Group Ltd	18.00%
FirstRand Ltd	17.46%
Absa Group Ltd	10.51%
Discovery Holdings Ltd	10.12%
Metropolitan Holdings Ltd	7.75%
Sanlam Ltd	3.71%
Remgro Ltd	3.61%
Brait S.A.	3.04%
JSE Ltd	1.78%
<b>Total</b>	<b>96.29%</b>

### CUMULATIVE PERFORMANCE SINCE INCEPTION



### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2006	01/10/2006	46.90	45.39	1.51
31/03/2006	01/04/2006	13.80	12.45	1.35
30/09/2005	01/10/2005	34.72	32.20	2.52
31/03/2005	01/04/2005	11.18	10.55	0.63

### ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	32.02%	34.69%	-2.67%
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%

### MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2006	7.01%	0.60%	3.69%	0.43%	-5.96%	-4.35%	2.94%	1.45%	1.68%	7.56%	3.63%	7.94%
B'mark 2006	7.74%	0.08%	6.19%	1.13%	-4.96%	-2.22%	1.14%	4.43%	4.08%	6.02%	2.33%	5.85%
Fund 2005	0.30%	3.52%	-2.03%	-0.91%	2.54%	3.02%	8.57%	0.52%	2.04%	-1.46%	3.14%	9.55%
B'mark 2005	-0.44%	2.83%	-1.29%	-1.39%	4.45%	2.37%	7.76%	1.35%	3.58%	-1.29%	2.77%	10.16%