

"That's a great deal to make one word mean," Alice said in a thoughtful tone.

"When I make a word do a lot of work like that," said Humpty Dumpty, "I always pay it extra."

*-From Alice in Wonderland by Lewis Carroll,
as quoted in A.Word.A.Day.*

We are pleased to report that the fund enjoyed an excellent quarter, both in an absolute and in a relative sense. So much so that it caught up all of its mid-year lag in terms of performance versus the peer group, and is back at the top end of the ranking tables. The fund was in fact listed as one of the top ten SA unit trusts on pure return for the five year period to December 2006, with a compound annual return of 33%. This pleases us greatly, especially since we believe the returns were delivered without undue risk taking. To run through the figures in the customary way, the quarter's return was 24.3%, while the FTSE-JSE Industrial Index did 18.9%. For the calendar year to December 2006, the fund and index, respectively came in at 41.1% and 41.9%, while three-year compound figures up to the same date were, in the same order, 43.0% and 41.2%.

We focus on returns for a moment to enable us to make a couple of points. The first is to blow our own trumpet (just a tiny bit). The second is to state again that annual returns in the 30%'s and 40%'s are clearly not sustainable and no matter how positive the economic outlook might be, equities are now much more expensive than when some of our longer-serving clients joined us. At 44% annually, an investment trebles over three years. At 33% annually, it more than quadruples over five years. While it is wonderful when the magic of compounding works in one's favour, the opposite is also true. In the example above, the prospective earnings stream one bought three years ago at R1, now costs R3 to purchase; the one bought five years ago at R1 now costs R4.16. Sure, the expected cash flows from many companies have also increased, but have they trebled or quadrupled?

Let's leave the salutary warnings there. Thirdly, we'd like to refute the notion that a fund categorised in the much maligned "equity sector fund" category is suitable only for specialist investors or those with a high risk appetite. We see the industrial space as providing ample opportunity for diversification and risk management (admitting that we are talking of an equity portfolio), as the longer-term track record shows.

Our last point is to revisit our process just a bit. You will by now be used to our dis-inclination to trade much, and our preference for large chunky holdings of the stocks we like. Like Humpty Dumpty and his words, we make a stock do a lot of work, but when it does come through, 'it pays us back extra'. In the quarter, our large positions in Naspers, Peermont, Mr Price, Edcon and Woolworths all did well for us with returns (unbelievably) of between 30% and 40%. The laggard stocks in the quarter were Telkom, Famous Brands, Richemont and SABMiller. We continue to hold very large positions (5% - 10% of the portfolio) in Naspers, Woolworths, Telkom, Mr Price, Edcon, Remgro and Richemont.

During the quarter we sold some of the stocks we had bought during the mid-year sell-off of consumer cyclicals. These stocks had generally recovered to their normal valuation levels as fears of a consumer melt-down dissipated. Among them were Imperial, AVI, Massmart and JD Group. We also sold Astral, where we were correct in expecting prospects of rising food inflation to filter through to earnings forecasts.

Despite general valuation levels being fairly high, we still found investment value in a number of new buys. We bought the excellent quality businesses Hudaco, Adcorp (again) and Discovery Health, the latter not strictly in the industrial space but a company with very exciting long-term prospects. We also bought Netcare, largely for exposure to its newly acquired offshore assets; Tiger Brands, a quality company that has lagged the market; and Sovereign Foods, another beneficiary of food inflation.

A custom we neglected in the last few quarters is that of the feature stock. We return to this with a few comments on Mvela Group, now a long-time holding in the fund. This investment trust in the BEE space has lagged the market due to a hiatus in landing new deal flow, uncertainty about what it will do with its substantial cash pile, and leadership/succession issues. On our calculations it is however trading at more than a 1/3 discount to the stack-up value of its investment portfolio, the portfolio itself being made up of assets we mostly like very much: ABSA, Life Healthcare, cash, a service business and Group Five. Despite the risks, the margin of safety here is huge.

While the investment environment is as uncertain as always at the beginning of the year, we remain confident in finding a judicious mix between conservatism and capital preservation on the one hand, and daring and innovation on the other. Would it be to much to ask that it would be, after all we've already enjoyed, another good year?

Dirk Kotzé and Pallavi Ambekar
Portfolio Managers

Fund category	Domestic Equity Industrial
Launch date	1 July 1998
Portfolio manager	Dirk Kotzé and Pallavi Ambekar
Fund size	R93.7 million
NAV	4666.39 cents
Annual management fee	1.00% (ex VAT)

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

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2006
Domestic Assets	100.00%
Equity	99.05%
Basic Materials	4.50%
Industrials	6.92%
Consumer Goods	15.37%
Healthcare	3.53%
Consumer Services	53.47%
Telecommunications	8.65%
Financials	6.61%
Cash	0.95%
International Assets	0.00%

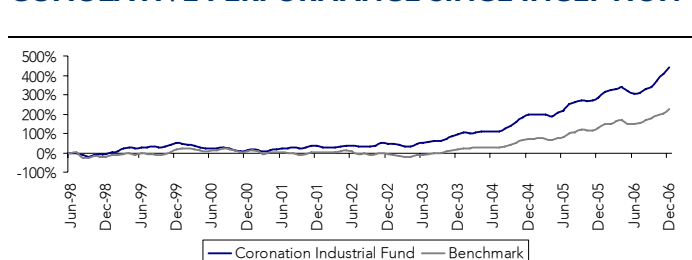
PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	41.14%	41.86%
Latest 12 months	41.14%	41.86%
Latest 36 months (annualised)	43.05%	41.23%
Latest 60 months (annualised)	33.16%	25.89%
Since inception (annualised)	22.55%	15.02%
Annual deviation since inception	17.74%	21.95%
Sharpe ratio	0.64	0.17
Maximum gain	55.54%	61.72%
Maximum drawdown	-21.40%	-29.29%
Positive months	64.71%	65.69%

TOP 10 HOLDINGS

As at 31 December 2006	% of Fund
Naspers Ltd – N ordinary shares	8.46%
Woolworths Ltd	7.25%
Mr Price Group Ltd	6.29%
Telkom SA Ltd	5.51%
Edgars Consolidated Stores Ltd	5.36%
Remgro Ltd	4.92%
Richemont Securities AG	4.83%
Mvelaphanda Group Ltd	4.48%
Famous Brands Ltd	4.27%
Bidvest Group Ltd	4.10%
Total	55.47%

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2006	01/10/2006	38.88	35.09	3.79
31/03/2006	01/04/2006	42.71	40.74	1.97
30/09/2005	01/10/2005	36.67	36.67	0.00
31/03/2005	01/04/2005	26.35	25.52	0.83

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	35.03%	35.46%	-0.42%
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%

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2006	8.29%	1.23%	2.16%	1.98%	-4.53%	-3.70%	1.89%	3.68%	2.40%	7.90%	7.17%	7.44%
B'mark 2006	7.40%	-0.70%	5.82%	2.23%	-6.21%	-1.27%	1.58%	5.94%	3.82%	5.06%	4.88%	7.87%
Fund 2005	1.26%	0.15%	-1.32%	-2.48%	6.82%	2.95%	10.56%	2.55%	3.47%	-1.41%	1.46%	7.22%
B'mark 2005	0.21%	2.18%	-2.16%	-4.46%	7.51%	3.86%	8.96%	1.67%	8.23%	-2.56%	0.86%	7.58%