

The final quarter of 2006 was impressive for most domestic asset classes, with equities, property and bonds all delivering a substantial positive return. Markets around the world shrugged off the volatility experienced in May/June, and in South Africa market participants began looking through the tightening rate cycle to what was actually happening in the underlying economy. In particular, in December the outlook on interest rates seems to have changed dramatically with the long end of the yield curve rallying sharply. Domestic focused equities which had underperformed up until this point came back strongly, vindicating the fund's overweight position in these shares. For the quarter the fund returned an impressive 14.7% ahead of the FTSE/JSE All Share Index return of 11.8%. For the calendar year the overall return was 29.1%, which was once again well ahead of inflation. For the past 5 years the fund has compounded at 26.6% per annum, which is well ahead of inflation as well as the balanced benchmark of 21% per annum.

The fund has been overweight equities for the year, having built up further weightings during the brief May/June meltdown in local markets. This has proved to be the correct strategy to date. Clearly on the back of the number of years of great returns (4 years of strong positive returns in a row) the asset allocation call becomes even more difficult as valuations in certain sectors and asset classes have changed. Looking at the local economy all signs indicate that the benign growth story should remain firmly on track, aided by increased government spending on infrastructure projects. The peaking of the domestic interest rate cycle should also add further impetus later on in the year and going into 2008. All this should bode well for earnings growth of local companies. Demand appears to have held up strongly, although higher interest rates have resulted in slowing growth for durables and semi-durables. With this background equities still appear to offer some value although once again stock selection will be very important. Foreign purchasing of domestic equities is at an all time high and any change in this phenomenon could result in sharp price fluctuations (but little impact on the fortunes of the actual companies).

With the December rally that occurred bonds are looking fully priced, although with SARS collections overrunning expectations and the economy unable to deliver further capital expansion, further issuance of government bonds will be limited. This could result in a squeeze due to no stock available to fund annuity portfolios. Some of this will be met by issuances from corporates although the appetite for this kind of paper is limited. Listed property has also had a very good quarter driven by the changing interest rate outlook. There does still appear to be some value in specific counters in this sector.

As the rand firmed into the last quarter we have taken the opportunity to increase our offshore exposure. As and when opportunities present themselves we will continue to increase exposure up to our maximum of 15%. The offshore exposure is currently split 60:40 between equities and cash. We deem it prudent at these rand levels to hold some currency diversification.

It has been an extremely eventful year which has resulted in great returns. We believe the fund is well positioned to continue to deliver good inflation beating returns over the medium- to long-term investment horizon.

**Neville Chester**  
Portfolio Manager

Fund category	Domestic Asset Allocation Flexible
Launch date	2 July 2001
Portfolio manager	Neville Chester
Fund size	R1 billion
NAV	3223.03 cents
Annual management fee	1.25% (ex VAT)
Performance fee	20% ex VAT (above hurdle, capped at 2.5% p.a.)

Benchmark	Composite Benchmark (63% equity, 22% bonds, 10% International, 5% cash)
Performance fee hurdle	Composite Benchmark + 2%
Fund description	Invests across various domestic and international asset classes, with a bias towards the equity market over the investment cycle.

**EFFECTIVE ASSET ALLOCATION EXPOSURE**

Sector	31 Dec 2006
<b>Domestic Assets</b>	<b>90.46%</b>
<b>Equity</b>	<b>71.53%</b>
Oil & Gas	4.67%
Basic Materials	14.06%
Industrials	3.34%
Consumer Goods	5.52%
Healthcare	2.01%
Consumer Services	22.21%
Telecommunications	4.76%
Financials	14.96%
<b>Preference Shares &amp; Other Securities</b>	<b>5.72%</b>
<b>Real Estate</b>	<b>5.60%</b>
<b>Fixed Interest</b>	<b>3.85%</b>
<b>Cash</b>	<b>3.76%</b>
<b>International Assets</b>	<b>9.54%</b>
<b>Equity</b>	<b>6.26%</b>
<b>Cash</b>	<b>3.28%</b>

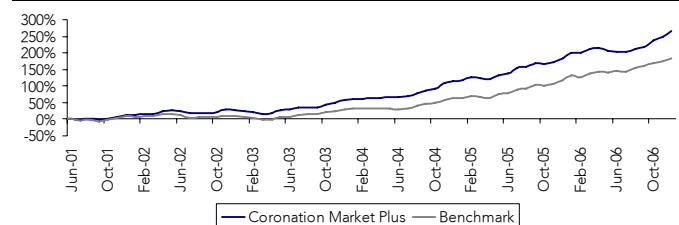
**PERFORMANCE AND RISK STATISTICS**

	Fund	Benchmark
Year to date	29.13%	30.19%
Latest 12 months	29.13%	30.19%
Latest 36 months (annualised)	32.72%	30.06%
Latest 60 months (annualised)	26.60%	20.96%
Since inception (annualised)	26.89%	20.80%
Annual deviation since inception	11.20%	11.24%
Sharpe ratio	1.54	0.99
Maximum gain	36.32%	31.00%
Maximum drawdown	-9.98%	-10.44%
Positive months	72.73%	69.70%

**TOP 10 HOLDINGS**

As at 31 December 2006	% of Fund
Coronation Global Equity Fund of Funds	6.26%
Standard Bank Group Ltd	5.97%
Naspers Ltd – N ordinary shares	5.17%
Sasol Ltd	4.67%
Impala Platinum Holdings Ltd	4.00%
Woolworths Holdings Ltd	3.51%
BHP Billiton Plc	3.36%
MTN Group Ltd	3.27%
Edgars Consolidated Stores Ltd	2.94%
Growthpoint Properties Ltd	2.86%
<b>Total</b>	<b>42.01%</b>

**CUMULATIVE PERFORMANCE SINCE INCEPTION**



**INCOME DISTRIBUTIONS**

Declaration	Payment	Amount	Dividend	Interest
30/09/2006	01/10/2006	38.34	28.57	9.77
31/03/2006	01/04/2006	38.93	30.49	8.44
30/09/2005	01/10/2005	38.96	28.47	10.49
31/03/2005	01/04/2005	0.29	0.12	0.17

**ANNUAL RETURNS SINCE INCEPTION**

	Fund	Benchmark	Active Return
2005	33.05%	33.69%	-0.64%
2004	35.91%	26.41%	9.50%
2003	24.90%	18.15%	6.75%
2002	11.40%	-0.37%	11.76%
2001	13.87%	9.15%	4.73%

**MONTHLY PERFORMANCE RETURNS**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2006	6.30%	-0.01%	3.86%	1.27%	-3.24%	-0.92%	0.05%	3.16%	1.79%	5.92%	3.82%	4.30%
B'mark 2006	6.30%	-1.85%	4.67%	3.02%	-0.95%	1.79%	-0.83%	3.96%	2.61%	3.38%	2.00%	2.89%
Fund 2005	1.69%	3.26%	-1.11%	-1.82%	6.36%	2.30%	6.19%	1.55%	4.03%	-0.70%	1.95%	5.61%
B'mark 2005	0.93%	3.32%	-1.66%	-2.28%	6.29%	2.72%	5.29%	1.44%	6.45%	-1.38%	2.07%	5.83%