

The fund had a remarkable quarter, returning 21.9%. This compared favourably with the mid and small-cap indices which returned 19.8% and 19.7% respectively, and the Top 40 index which returned 10.7%. A return of 21.9% in a quarter is certainly more than we would have expected and continues the remarkable bull-run enjoyed by mid and small cap stocks. We sense that 2007 will be a lot tougher than 2006, a year in which the fund returned 46.7%. Finding value in this market, while still possible, has become much tougher. Overall, the fund is still not that expensive, trading on a 1- year forward p:e of 10x, but this is the highest level it has been since I started managing the fund in February 2005.

Some of the new counters in the fund include Amalgamated Appliances (Amaps), Zeder Investments and Brait.

In December, Amaps announced a significant company-transforming transaction whereby they will acquire Steinhoff's local furniture manufacturing business. The company is effectively acquiring a business at a decent price, and will be funding the bulk of the purchase price with cheap debt. We considered the transaction to be materially value accretive and took the opportunity (the share price was down on the day of the announcement) to acquire a position.

Zeder is an investment holding company with investments in agricultural-related assets such as Pioneer Foods and KVV. The underlying investments are generally undervalued and are all unlisted, which means gaining exposure to these businesses is only possible via Zeder. On listing, Zeder raised a significant amount of cash with a view to making more investments. While this cash is not invested the attraction of the vehicle is significantly diluted, however we are of the opinion that there are enough opportunities for Zeder such that the cash will be wisely deployed.

Brait is an interesting business. Its main business is private equity. They have an enviable record of raising, investing and realising private equity funds. They are in the process of closing a fourth fund, and will be making new investments in that fund in the near future. We rate this business highly. Their specialised funds business (hedge fund of funds) has grown rapidly over the past few years, and now manages some R4 billion in assets. The business has only just become profitable. Finally, Brait have a portfolio of on-balance sheet investments which contains assets we believe hold much promise. We rate management highly, and believe we will do well from our investment.

Some of the more significant sales during the quarter include Massmart and Group Five.

Massmart is a fantastic business, but is now priced accordingly. In the second half of 2006, the stock was up 60%! We consider this too much, too soon, and took some profits.

Like all other construction stocks, Group Five has been a very strong performer for a number of years. While we do not deny that these stocks will benefit from a fantastic macro-environment for a good few years still, the question one needs to answer is the extent that this has already been priced into these shares.

The big risk with construction stocks is that they conduct risky business. Construction by its nature is unpredictable, low margin business. Normally, a contract will be quoted on upfront, with the contractor then bearing the risk of unforeseen events. This is why historically, construction stocks have traded at healthy discounts to the overall market. Today, all the construction stocks trade at healthy premiums to the market, with the belief that these premiums will erode due to superior earnings growth. We believe that too much is being priced in, and that the risk-reward relationship of owning Group Five is no longer in your favour.

There seems to be a common perception that investing in a "small cap" fund is riskier than investing in, say, a general equity fund. One must remember however, that the mandate of a small cap fund manager allows these funds to invest anywhere outside of the Top 40 index. This means that the fund can invest in a company such as Shoprite, a R14 billion market capitalisation company, hardly a small cap. The weighted market capitalisation of the fund is R3.7 billion, which would place the average holding in the fund in the small cap index (The JSE is the biggest company in the small cap index with a market capitalisation of R4.6 billion). The fund is therefore not exposed to the very small micro-caps listed on the JSE which can be risky investments, but remains true to its name (Smaller Companies Fund) by attempting to invest in the smaller, less researched part of the market. We would actually contend that investing in small cap funds is less risky than investing in general equity funds, primarily because of the huge impact of volatile and difficult-to-forecast commodity prices and exchange rates on the large companies, and hence, general equity funds.

Investors in small cap funds have been well rewarded for the past 5 years, and while we would not expect the same level of performance to continue, we do expect returns to be satisfactory going forward.

Alistair Lea
Portfolio Manager

Fund category	Domestic Equity Smaller Companies
Launch date	1 April 1997
Portfolio manager	Alistair Lea
Fund size	R193.4 million
NAV	3859.19 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.

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	31 Dec 2006
Domestic Assets	100.00%
Equity	92.10%
Basic Materials	5.75%
Industrials	4.54%
Consumer Goods	15.63%
Consumer Services	50.14%
Financials	11.49%
Technology	4.55%
Cash	7.90%
International Assets	0.00%

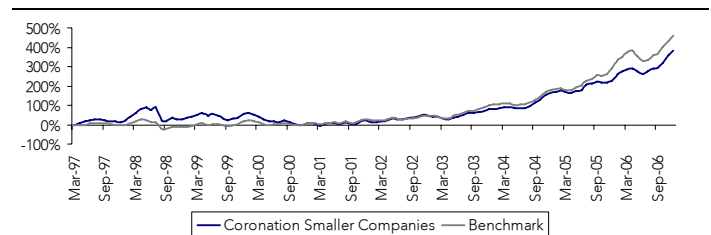
PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	46.73%	43.26%
Latest 12 months	46.73%	43.26%
Latest 36 months (annualised)	39.96%	41.07%
Latest 60 months (annualised)	32.62%	34.94%
Since inception (annualised)	17.72%	19.36%
Annual deviation since inception	23.14%	19.67%
Sharpe ratio	0.25	0.38
Maximum gain	67.21%	43.41%
Maximum drawdown	-37.63%	-30.55%
Positive months	64.10%	63.25%

TOP 10 HOLDINGS

As at 31 December 2006	% of Fund
Distell Group Ltd	5.43%
Cashbuild Ltd	4.99%
Adcorp Holdings Ltd	4.83%
Mr Price Group Ltd	4.46%
Famous Brands Ltd	4.27%
Iliad Africa Ltd	4.25%
Nu-World Holdings Ltd	3.97%
Primedia "N" Ltd	3.41%
Woolworths Holdings Ltd	3.26%
Brandcorp Holdings Ltd	3.18%
Total	42.05%

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2006	01/10/2006	24.70	22.43	2.27
31/03/2006	01/04/2006	47.09	44.28	2.81
30/09/2005	01/10/2005	19.43	17.36	2.07
31/03/2005	01/04/2005	28.63	24.88	3.75

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	25.94%	41.37%	-15.43%
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%

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Fund 2006	9.60%	4.83%	1.55%	2.08%	-3.70%	-4.47%	4.01%	3.94%	1.58%	6.61%	8.49%	5.43%
B'mark 2006	11.23%	2.69%	5.34%	2.23%	-5.83%	-5.88%	1.85%	5.89%	1.75%	7.51%	5.98%	5.11%
Fund 2005	0.93%	3.79%	3.05%	2.85%	4.70%	2.12%	9.28%	1.94%	3.01%	1.44%	0.97%	4.54%
B'mark 2005	1.52%	3.03%	3.53%	0.76%	5.34%	2.76%	8.94%	3.06%	5.87%	1.72%	3.47%	7.92%