

The Fund returned -6.2% in the quarter, against the -5.34 % of the Industrial index. For the one-year to end June the Fund delivered 32% and the index 35%, and on a compound annual basis for three years to June, these numbers stood at 40.5% and 42%.

Our cautious comments last quarter were vindicated when the market suffered a serious setback mid-May, and the wave of emerging market optimism evaporated into a mist of uncertainty. It is often possible to identify abnormal levels of sentiment and valuation in markets. However, predicting how and when these will come to an end is a different matter entirely. Given our market concerns, we positioned the portfolio as defensively as possible and at the same time considered the possibility of the 'Goldilocks' period lasting some time still. It is for this reason that the Fund retained a significant exposure to 'cyclical' stocks, albeit those we believed to be undervalued. In the subsequent decline, all cyclical stocks were severely sold down, and our current holdings became even cheaper.

Times of market upheaval are good for stock pickers in that they provide entry or exit opportunities seldom seen in more stable markets. The rational reaction in a falling market is to sell those defensives that have 'done the job' and preserve capital, applying the cash to stocks that have become very attractive. We did exactly this, and our trading activity in the quarter was significantly above normal as a result. Stocks sold out of the portfolio in the period included Omnia, Group Five, Mvela Group, Trencor, Oceana, Tiger Brands, Johnnic Communications and Pick 'n Pay. New positions were established in Adcorp, Astral, Cashbuild, Massmart, Spar, MTN and HCI/Johnnic. In almost all instances the sales were not due to a negative re-evaluation of the prospects of the companies concerned, but rather to relative price moves. The same is largely true of the buys. We also used the market sell off as an opportunity to add to some of our core positions, and increased our holdings of Woolworths, Telkom, Edcon, Mittal, Richemont and Tiger Wheels.

Predictably, stocks with a rand hedge element were the biggest contributors to performance during the quarter, among them Mittal, Delta, AECL, Omnia, Tiger Wheels, Richemont and Oceana. The laggards were predominantly consumer cyclicals (and even defensives), notably Edcon, the newly acquired Massmart, Famous Brands, Woolworths, Tiger Brands and Mr Price.

The telecommunication sector now comprises 9.4% of the Fund in total. We have increased our Telkom position, buying at lower levels as the price declined substantially. During the quarter, Telkom traded at a price that implied that the fixed line business was trading on a 3 to 5 times normalised PE, a level that more than compensated for increased competition and regulatory risk. In addition, Telkom still owns 50% of Vodacom, a strongly growing, highly cash generative business that is the market leader in the South African mobile space.

After a long absence, MTN made an appearance in the Fund, mainly due to huge share price underperformance. Despite strong fundamentals, we historically considered the share to be expensive, as investors were caught up in the 'growth' story. The recent Investcom transaction will diversify MTN's portfolio of assets, but will put pressure on earnings for the next two years. However, we assess longer term growth in earnings and free cash flow to be very strong. In addition, operations in South Africa and Nigeria are currently generating substantial free cash flows and this should provide a stable underpin while other licences are still in their growth phase. At the current share price, the forward PE multiple no longer includes a premium for exceptional future growth.

We acknowledge that the world may have changed, and that we are moving into a weaker rand and higher interest rate environment, but it is by no means certain that the positive economic cycle in South Africa is fatally wounded. In fact, we believe that the consumer sector in particular has been oversold and now discounts a worse scenario than that which we view as the base case. In this sector we continue to see good value in Woolworths, Mr Price and Edcon. Our other large holdings are Naspers, Telkom, Remgro, Tiger Wheels, Mittal and AECL.

Dirk Kotzé & Pallavi Ambekar
Portfolio Managers

Fund category	Domestic Equity Industrial
Launch date	1 July 1998
Portfolio manager	Dirk Kotzé & Pallavi Ambekar
Fund size	R72.5 million
NAV	3507.57 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.

ASSET AND SECTOR ALLOCATION

Sector	30 Jun 2006
Domestic Assets	100.00%
Equity	97.08%
Basic Materials	9.26%
Industrials	1.80%
Consumer Goods	18.55%
Consumer Services	50.33%
Telecommunications	9.72%
Financials	7.42%
Real Estate	2.67%
Cash	0.25%
International Assets	0.00%

TOP 10 HOLDINGS

As at 30 June 2006	% of Fund
Naspers Ltd – N ordinary shares	8.08%
Woolworths Ltd	6.77%
Telkom SA Ltd	6.52%
Mr Price Group Ltd	5.81%
Remgro Ltd	5.14%
Tiger Wheels Ltd	5.14%
Edgars Consolidated Stores Ltd	5.11%
Mittal Steel Ltd	4.88%
Famous Brands Ltd	4.67%
AECI Ltd	4.38%
Total	56.49%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
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
30/09/2004	01/10/2004	14.97	13.50	1.47

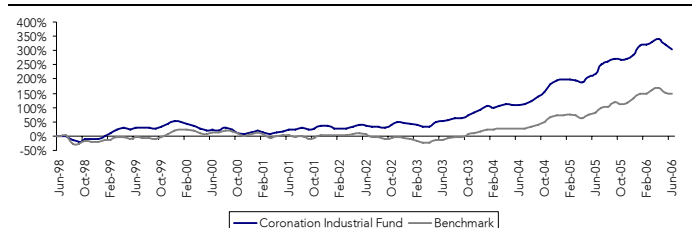
MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2006	8.29%	1.23%	2.16%	1.98%	-4.53%	-3.70%						
B'mark 2006	7.40%	-0.70%	5.82%	2.23%	-6.21%	-1.27%						
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%

PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	5.00%	6.82%
Latest 12 months	32.11%	35.40%
Latest 36 months (annualised)	40.51%	41.98%
Latest 60 months (annualised)	27.79%	18.88%
Since inception (annualised)	19.61%	11.99%
Annual deviation since inception	17.93%	22.36%
Sharpe ratio	0.46	0.03
Maximum gain	55.54%	61.72%
Maximum drawdown	-21.40%	-29.29%
Positive months	62.50%	63.54%

CUMULATIVE PERFORMANCE SINCE INCEPTION



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%