

The second quarter saw some large moves across asset classes, with a number of our expectations coming to fruition in the fixed interest market, and some unexpected gyrations in the equity market. Overall the benchmark return was 3.8% but within that the ALBI was down 3.6% and listed property down 19%. The 19% drop in the property index came as quite a shock to many who believed it was a steady source of income, a stark reminder that property stocks are not risk free. The All Share Index was up 4.9% but within that the resource shares were the strong performers up close to 20% with the rest of the index generally negative, in particular the interest rate sensitive stocks. The fund underperformed for the quarter, delivering a return of -2.9% due to our equity exposure to predominantly domestic stocks.

This quarter marks the 5th anniversary of the fund, which has delivered an annualised return of 25.1% against the benchmark of 19.8% since inception, and is currently ranked 1st out of 14 funds in its category.

A number of events occurred during the quarter, some taking place offshore and some locally. The first big event was the indication from the Fed in the US that the initial talk about a rate pause was misleading and that interest rates would be rising further. This seemed to cause global investors to reverse their appetite for risk, sending the EMBI spread up 50 to 70 bps and starting a run on certain emerging market currencies and equities - as well as a sharp pull back in commodity prices. Initial targets were those countries with large current account deficits. Turkey was the first casualty which as a defence, immediately hiked rates by 1.75%. Shortly thereafter the Reserve Bank hiked rates by 50 bps surprising most of the local market and sparking fears that this was the start of many rate hikes. This data was followed by a worse than expected domestic current account deficit for the first quarter and a further surprise rate hike in Turkey of 2%. Despite significantly different fundamentals between the two countries, domestic equity markets reacted as if a similar situation to Turkey would evolve in SA

The subsequent moves locally saw all interest rate sensitive assets reprice sharply downwards. Bonds sold off over 100 bps, property stocks fell sharply and the credit retailers as well as the banks came under aggressive selling pressure. Local and foreign fund managers were both responsible for this as risk aversion seized the market. At the same time the currency sold off sharply resulting in rand hedges and resources shares in particularly doing very well.

The fund had been positioned very short of bonds and property with negligible exposure to each of these asset classes. We had recently taken money offshore and invested in offshore equities which did help somewhat due to the currency sell off, although foreign equities also came under some pressure. The major negative impact came about as a result of our being underweight resources and overweight domestic shares. This strategy has been in place since last year on the basis of stretched valuations in our opinion in the resource sector matched with overvalued commodities. On the other side domestic stocks are not pricing in any growth expectations despite the benign local economic outlook, which remains despite the recent interest rate uptick.

If one believed that the recent strong growth in the SA economy has been entirely cyclically driven, and that we were about to enter into a number of sharp and fast interest rate hikes then the rotation from SA stocks would make sense. We do not believe in either of these cases. While interest rates have definitely played their part in our recent economic growth, there is definitely an element of secular growth as a structural change unfolds in the demographics of our country. Together with a strong growth plan and local investment spend by government we believe this should continue to drive growth. As to the interest rate cycle, we do not believe this is a 'wheels off' scenario as in Turkey. Turkey's central bank only started hiking rates after the inflation figure had moved well outside of the inflation band. SA inflation is still comfortably within the range of 3% to 6% and we expect this should remain, with only a further 100 to 150 bps rate hikes over a twelvemonth period.

These recent moves have created opportunities with both bonds (in particular corporate bonds) and property stocks starting to look interesting once again, and certainly some domestic stocks are at very attractive levels. We continue to actively identify investments that we expect over the longer term will deliver good returns for investors. In the short term volatility is likely to remain high, and investors with short term horizons should remain on the sidelines. Investors with an appreciation for the long term nature of investments will realise that markets such as now are where real opportunities are created.

Neville Chester
Portfolio Manager

Fund category	Domestic Asset Allocation Flexible
Launch date	2 July 2001
Portfolio manager	Neville Chester
Fund size	R852.7 million
NAV	2711.46 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.

ASSET AND SECTOR ALLOCATION

Sector	30 Jun 2006
Domestic Assets	93.48%
Equity	73.81%
Oil & Gas	5.37%
Basic Materials	14.09%
Industrials	1.08%
Consumer Goods	7.31%
Consumer Services	21.96%
Telecommunications	4.29%
Financials	22.61%
Derivatives	(2.90%)
Preference Shares & Other Securities	8.24%
Real Estate	2.95%
Fixed Interest	3.45%
Cash	5.03%
International Assets	6.52%
Equity	6.52%
Cash	0.00%

TOP 10 HOLDINGS

As at 30 June 2006	% of Fund
Coronation Global Equity Fund of Funds	6.52%
Standard Bank Group Ltd	6.05%
Sasol Ltd	5.37%
Naspers Ltd – N ordinary shares	4.76%
Makalani Holdings Ltd	4.19%
Impala Platinum Holdings Ltd	3.90%
Remgro Ltd	3.60%
Woolworths Holdings Ltd	3.32%
Liberty Group Ltd	3.31%
Bidvest Group Ltd	3.07%
Total	44.09%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
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
30/09/2004	01/10/2004	21.62	13.22	8.40

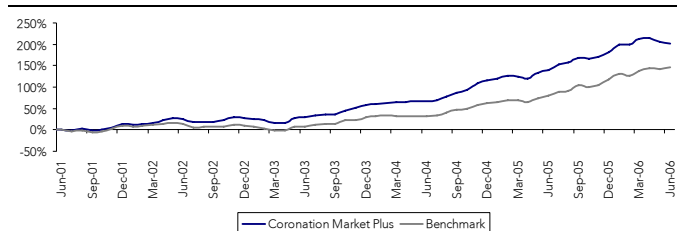
MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2006	6.30%	-0.01%	3.86%	1.27%	-3.24%	-0.92%						
B'mark 2006	6.30%	-1.85%	4.67%	3.02%	-0.95%	1.79%						
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%

PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	7.18%	13.43%
Latest 12 months	28.55%	37.38%
Latest 36 months (annualised)	33.68%	31.57%
Latest 60 months (annualised)	25.15%	19.75%
Since inception (annualised)	25.15%	19.75%
Annual deviation since inception	11.51%	11.65%
Sharpe ratio	1.34	0.86
Maximum gain	36.32%	31.00%
Maximum drawdown	-9.98%	-10.44%
Positive months	70.00%	68.33%

CUMULATIVE PERFORMANCE SINCE INCEPTION



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%