

The past quarter saw a remarkable turnaround in investor sentiment in equity markets from one of unwavering optimism to mildly panicked. The fund began the quarter up by close to 4% until 11 May. Then the sell-off began, triggered by changing views on global inflation from the equity-friendly low inflation and high growth view, to one of higher inflation and lower growth. Stock markets the world over were affected, with particular emphasis on emerging. To add insult to injury, the Reserve Bank unexpectedly raised the repo rate by 50 basis points on 8 June, and on 22 June the current account deficit reflected levels far higher than expected. Fears of a rising interest rate environment caused a mass sell-off in interest rate sensitive stocks and a long awaited depreciation of the rand. The general retail sector, the most negatively affected by rising interest rates, fell 21% in the quarter while most rand hedges gained ground on the back of the weakening currency.

Considering these events, it was heartening to see that the fund only fell by approximately 6.1%, outperforming the mid and small cap indices which were down some 10%.

The market's reaction to the events of the quarter has in our opinion, been overdone. Quality companies such as Massmart were at one stage down 30% in the space of six weeks. Even if interest rates were to rise further, we do not see the logic in a business being worth 30% less in the face of a potential 200 basis point hike in interest rates. As such, we took the opportunity to buy shares, with Spar, Nu-Clicks, Adcorp and Discovery amongst our larger purchases.

During the quarter we sold out of our remaining holdings in Tanzanite One, the London AIM-listed Tanzanite miner and marketer. The timing was not ideal from a currency perspective, but was very good from a price perspective, being down 38% from our selling price. We also reduced positions in various counters which held up well in the sell-off, investing the proceeds in better opportunities. Some of our selling included positions in Invicta, AG Industries and Johnnic Communications.

The fund is not expensive, trading on a weighted 1-year forward PE multiple of just over 9 times. While we are wary of the possible effect of interest rate hikes on the consumer, many of the retailers (such as Cashbuild) in which we are invested sell for cash to consumers who do not have debt, and so long as jobs are not lost, the effect of interest rate hikes on these businesses should be muted. In addition, we have positions in several companies (Tiger Wheels, Oceana, Omnia, AECI, Trencor) which will benefit from rand weakness, one of the factors which will increase the chances of interest rate hikes.

**Alistair Lea**  
Portfolio Manager

**Fund category** Domestic Equity Smaller Companies  
**Launch date** 1 April 1997  
**Portfolio manager** Alistair Lea  
**Fund size** R132.4 million  
**NAV** 2904.39 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.

## ASSET AND SECTOR ALLOCATION

Sector	30 June 2006
<b>Domestic Assets</b>	<b>100.00%</b>
<b>Equity</b>	<b>98.32%</b>
Basic Materials	9.98%
Industrials	7.12%
Consumer Goods	15.88%
Consumer Services	53.54%
Financials	5.13%
Technology	6.67%
<b>Cash</b>	<b>1.68%</b>
<b>International Assets</b>	<b>0.00%</b>

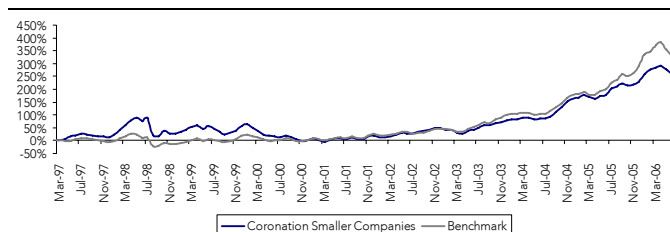
## PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	9.57%	9.03%
Latest 12 months	30.80%	42.21%
Latest 36 months (annualised)	37.42%	41.26%
Latest 60 months (annualised)	27.65%	30.51%
Since inception (annualised)	15.05%	17.00%
Annual deviation since inception	23.53%	19.97%
Sharpe ratio	0.13	0.25
Maximum gain	67.21%	43.41%
Maximum drawdown	-37.63%	-30.55%
Positive months	62.16%	61.26%

## TOP 10 HOLDINGS

As at 30 June 2006	% of Fund
Cashbuild Ltd	4.88%
Tiger Wheels Ltd	4.46%
Distell Group Ltd	4.42%
Famous Brands Ltd	4.31%
Massmart Ltd	4.11%
Mr Price Group Ltd	3.96%
New Clicks Holdings Ltd	3.96%
Omnia Holdings Ltd	3.88%
Value Group Ltd	3.65%
AECI Ltd	3.64%
<b>Total</b>	<b>41.27%</b>

## CUMULATIVE PERFORMANCE SINCE INCEPTION



## INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
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
30/09/2004	01/10/2004	25.11	20.85	4.26

## 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	Sept	Oct	Nov	Dec
Fund 2006	9.60%	4.83%	1.55%	2.08%	-3.70%	-4.47%						
B'mark 2006	11.23%	2.69%	5.34%	2.23%	-5.83%	-5.88%						
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%