

Emerging Markets staged a strong recovery in the third quarter, with the Morgan Stanley Emerging Markets Index up by 13% off the bottom. We believe that the sell-off was a good thing: appetite for risk has corrected as investors have been reminded that Emerging Markets are not a one-way bet. We continue to believe that Developed Markets offer more value than Emerging Markets, particularly on a risk-adjusted basis.

Growth is slowing in the US, with the consumer now visibly retrenching. This should, however, be offset by stronger performances from Europe and Japan and is a necessary development in the global rebalancing process. Inflation remains the wildcard and needs to be closely watched. While the global economy can comfortably manage a period of lower growth, a sustained increase in inflation would undermine the significant progress made over the last few years.

The domestic economy continued to perform well. We expect at least one more rate hike this year, and believe that the impact of recent moves will only really be evident early in 2007. Higher rates are not necessarily bad. Credit extension has been very high and the emerging middle class consumer has not yet had to deal with the other half of the credit cycle. The last 2 rate cuts were probably not needed and, in our view, growth actually needs to moderate somewhat. The weakness in the rand will help restore balance to the economy and give Industrial SA an opportunity to compete.

Developed Market Equities remain our preferred asset class. Earnings are high in the local market and with good value in Europe and Japan the argument to diversify remains compelling (albeit less so than was the case before the rand weakened). In the domestic market, local equities remain our preferred asset class. Although earnings are high, ratings are attractive and we believe that the economy will comfortably absorb higher rates - as it did in the last tightening cycle. Bonds have consolidated after the recent sell-off, delivering a return of 2% for the quarter. We consider current yields to be close to fair value. Property stocks rallied strongly in the quarter after the dramatic sell-off in the previous quarter. We acquired property stocks in the sell-off for the first time in many years and believe that they currently offer investors reasonable value. Yields are quite stretched, but distribution growth should be strong over the next few years.

Looking at the underlying sectors, Resources lagged the market for the first time this year returning 1%, as against 12% from Industrials and 10% from Financials. The commodity cycle is showing increasing signs of maturity. While the underlying markets remain tight, concerns over slowing global growth have led a decline in commodity prices across the board. We expect commodity prices to decline materially once supply reacts to current high prices. In the quarter we switched Anglo American into BHP Billiton. Anglo has been pushed on speculation of a take-out, which we consider unlikely, and offers a lot less value than BHP Billiton (20 times normal earnings as opposed to 16). We continue to find good value in Sasol, Impala and, increasingly, in BHP Billiton.

Within Industrials we reduced our weightings in the more defensive counters: Remgro, SAB and Tiger Brands in order to buy the more attractively priced interest rate sensitive stocks. While the outlook for a retailer like Edcon has undoubtedly softened, on an 8 p:e forward and a 7% dividend yield it is priced for a 30% decline in earnings. We consider this outcome to be very unlikely.

Within Financials we increased our weightings in banks, which continue to trade at very attractive ratings and have proven the robustness of their business models in previous cycles. They are less attractively priced than retailers, but their income statements are less geared and therefore come with less risk.

Louis Stassen and Karl Leinberger
Portfolio Managers

Fund category	Domestic Asset Allocation Prudential Medium Equity
Launch date	15 April 1996
Portfolio manager	Louis Stassen and Karl Leinberger
Fund size	R1.4 billion
NAV	3809.98 cents
Annual management fee	1.25% (ex VAT)

Benchmark	Composite benchmark (63% equity, 22% bonds, 10% international, 5% cash)
Fund description	A fully managed investment solution diversified across the various asset classes and sectors. Its asset allocation is compliant with Regulation 28 of the Pension Funds Act.

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2006
Domestic Assets	83.41%
Equity	65.30%
Oil & Gas	4.87%
Basic Materials	14.60%
Industrials	0.66%
Consumer Goods	6.51%
Healthcare	1.61%
Consumer Services	17.25%
Telecommunications	3.93%
Financials	14.58%
Technology	0.12%
Derivatives	1.17%
Real Estate	3.12%
Fixed Interest	10.66%
Cash	4.33%
International Assets	16.59%
Equity	9.03%
Fixed Interest	0.94%
Cash	6.62%

TOP 10 HOLDINGS

As at 30 September 2006	% of Fund
Coronation Global Equity Fund of Funds	6.51%
Standard Bank Group	5.76%
Impala Platinum Holdings Ltd	4.98%
Sasol Ltd	4.87%
Naspers Ltd – N ordinary shares	4.83%
BHP Billiton Plc	3.31%
Woolworths Ltd	3.16%
ABSA Group Ltd	3.01%
MTN Group Ltd	2.80%
Richemont Securities AG	2.32%
Total	41.55%

INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2006	01/10/2006	52.00	36.21	15.79
31/03/2006	01/04/2006	43.76	32.20	11.56
30/09/2005	01/10/2005	47.16	35.29	11.87
31/03/2005	01/04/2005	25.23	10.35	14.88

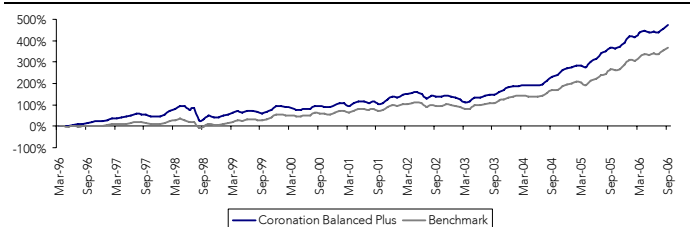
MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2006	6.22%	-1.10%	4.06%	2.13%	-2.12%	1.13%	-1.02%	3.61%	2.60%			
B'mark 2006	6.13%	-1.74%	4.68%	2.99%	-0.95%	1.79%	-0.83%	3.96%	2.61%			
Fund 2005	1.24%	2.58%	-0.24%	-2.07%	7.22%	2.58%	6.69%	1.94%	3.79%	-0.60%	2.09%	5.61%
B'mark 2005	0.93%	3.32%	-1.66%	-3.10%	7.40%	2.48%	4.97%	1.21%	6.38%	-1.04%	1.86%	5.61%

PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	16.28%	19.73%
Latest 12 months	24.62%	27.45%
Latest 36 months (annualised)	33.17%	30.87%
Latest 60 months (annualised)	23.59%	22.27%
Since inception (annualised)	18.33%	15.89%
Annual deviation since inception	16.53%	14.87%
Sharpe ratio	0.36	0.24
Maximum gain	57.74%	29.32%
Maximum drawdown	-29.84%	-23.24%
Positive months	67.46%	63.49%

CUMULATIVE PERFORMANCE SINCE INCEPTION



ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	35.00%	31.59%	3.41%
2004	32.01%	26.41%	5.61%
2003	17.68%	18.15%	-0.47%
2002	0.26%	-0.37%	0.63%
2001	20.28%	21.48%	-1.20%
2000	1.15%	5.30%	-4.15%
1999	36.68%	46.67%	-9.99%
1998	-1.51%	-3.15%	1.64%
1997	17.85%	7.21%	10.64%