

Ut veniat omnes ("Let them all come")  
- ancient British naval slogan

The Fund returned 8.18% in the quarter, compared to 9.63% for the JSE-FTSE Industrial index. Over the 12 months to September the returns for the Fund and the index were 21.9% and 24.0% respectively. Compound annual returns for three years to September, in the same order, were 40.9% and 40.1%.

It is pleasing that the returns, after last quarter's negative number, are positive again. We are however disappointed that we must report another quarter of trailing the index; indeed while we manage for the long term it is never easy to endure a period of under-shooting the benchmark. Against this backdrop, it is appropriate to confirm that our conviction in the investment views reflected in the Fund has not diminished. This conclusion was reached after much consideration of the altered state of the investment landscape, post the inflection point in markets during the events of May this year.

We referred to the mid-year sea-change in markets in our previous commentary. Re-pricing was then still underway, but predictably markets have settled down since. After the unusually high trading activity in the previous quarter, actions in the fund were limited to a few stock specific ideas. The key question is the degree to which economic prospects for companies have changed, and whether that change is correctly discounted in the price of the shares.

The shift to an economic scenario of increasing interest rates and hence reduced consumer spending surprised the markets with its speed and magnitude and resulted in a sell-off of shares geared to consumer spending. The negative surprise was aggravated by global issues. A reduction in emerging market risk appetite saw an end to the foreign portfolio flows which had buoyed our market early in the year. At the time of writing, the economic outlook remains uncertain, particularly with regard to the duration and extent of further interest rate increases. We stress-tested the individual investment cases for all our views. As a generalisation, it remains our sense that the best value is to be had in the consumer cyclical space. Although the earnings outlook for companies in this sector has undoubtedly worsened, valuation levels are compelling and discount a harsh economic outcome. We believe the secular improvement in economic prospects is sustainable, and will reassert itself as cyclical risks diminish.

During the quarter, we sold Delta Electrical and Super Group. These two seeds thus far failed to germinate. While their prospects have not changed much, the market turmoil offered companies with better earnings visibility, at similar or better ratings. Of the companies we sold in the previous quarter, we bought back Mvela Group at lower levels. Its prospects are much improved after the sale of its holding in Mvela Resources, and the valuation level is compelling. We also made use of the opportunity to establish a position in Imperial, where the 9x forward PE leaves much room for near-term earnings disappointment. On a similar thesis we instituted a position in JD Group, one of the stocks worst hit in the market sell-down. Lastly, we bought some shares in JSE Ltd. Although a financial stock and not strictly in our benchmark, we consider this an excellent long-term asset.

Our ten largest stocks make up 55% of the portfolio and are, by order of size: Naspers, Woolworths, Mr Price, Telkom, Richemont, Edcon, Famous Brands, Tiger Wheels, Mvela Group and AVI. Naspers enjoys strong annuity cash flows from its subscriber base; Woolworths' top-end positioning in food and its strong brand makes its earnings base defensive; Mr Price is a cash (as opposed to credit) retailer in affordable clothing and homeware; Telkom is a legislated monopoly; Richemont's diversification and brand ownership secures its earnings base. We could go on, but the point is to demonstrate the defensiveness in our key positions, underpinned in all instances by good valuations. Whatever the macro variables may serve up, we are ready. Let them all come.

**Dirk Kotzé and Pallavi Ambekar**  
Portfolio Managers

Fund category	Domestic Equity Industrial
Launch date	1 July 1998
Portfolio manager	Dirk Kotzé and Pallavi Ambekar
Fund size	R72.9 million
NAV	3794.63 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.

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2006
<b>Domestic Assets</b>	<b>100.00%</b>
<b>Equity</b>	<b>99.35%</b>
Basic Materials	5.76%
Consumer Goods	20.57%
Consumer Services	57.80%
Telecommunications	8.09%
Financials	7.13%
<b>Cash</b>	<b>0.65%</b>
<b>International Assets</b>	<b>0.00%</b>

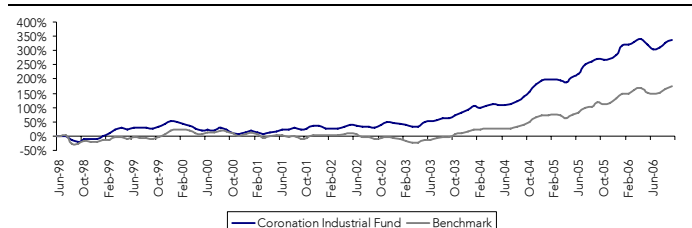
### PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	13.58%	19.35%
Latest 12 months	21.82%	26.18%
Latest 36 months (annualised)	40.91%	41.93%
Latest 60 months (annualised)	30.15%	25.50%
Since inception (annualised)	20.11%	13.12%
Annual deviation since inception	17.67%	22.09%
Sharpe ratio	0.50	0.08
Maximum gain	55.54%	61.72%
Maximum drawdown	-21.40%	-29.29%
Positive months	63.64%	64.65%

### TOP 10 HOLDINGS

As at 30 September 2006	% of Fund
Naspers Ltd – N ordinary shares	7.84%
Woolworths Ltd	6.22%
Mr Price Group Ltd	6.10%
Telkom SA Ltd	6.01%
Richemont Securities AG	5.60%
Edgars Consolidated Stores Ltd	5.30%
Famous Brands Ltd	5.09%
Tiger Wheels Ltd	4.92%
Mvelaphanda Group Ltd	4.77%
AVI Ltd	3.33%
<b>Total</b>	<b>55.18%</b>

### CUMULATIVE PERFORMANCE SINCE INCEPTION



### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2006	01/10/2006	38.88	35.09	3.79
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

### 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%

### 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%	1.89%	3.68%	2.40%			
B'mark 2006	7.40%	-0.70%	5.82%	2.23%	-6.21%	-1.27%	1.58%	5.94%	3.82%			
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%