

Domestic listed property recovered strongly over the quarter, posting a return of 9.2%. This brings the return for the sector to 7.8% for the year to date, and to 20.1% over the past year. The performance for the quarter was on the back of flat bond rates, with the All Bond Index performing in line with cash over the quarter at 2.1%.

The fund performed well over the quarter, with a return of 10.2%. This brings the return for the year to date to 9.9% and for one year to 18.1%. We were of the view that property had been oversold during the June quarter, and as such had increased exposure during this sell-off, and the further sell-off during July. These purchases have added materially to performance over the quarter. Domestic listed property exposure within the fund now stands at 92%, compared to around 78% at the end of the March quarter.

The fund also benefited significantly from the maximum permissible 10% holding in Liberty International. We have long argued the merit of this investment, and the attraction of a negative correlation to domestic listed property, and this view has finally come through on the back of a weaker currency, and also a strong performance in Pound terms. Liberty International returned 25% over the quarter, and 65% in the year to date.

On the back of this strong performance we have started reducing exposure materially. The share is now trading well over 1200 pence, and given the current level of the Rand we believe it is now overvalued. Given the important diversification benefits within the fund we are hesitant to sell the position out completely, but will do so at the right price.

Going forward we believe there is still selectively good value in domestic listed property. On aggregate we are expecting an annualised return around 10% over the next three years for the sector. This is based on an assumption of fair value around 9.1% for RSA long bond rates, which is still around 50bp above current bond rate levels. Interestingly there is still big divergence in the expected returns for individual property companies, with the highest at the time of writing being 15.7%, and lowest -5.2%. We thus think that stock picking will be very important in the next year or two going forward.

Interestingly, interest rate expectations in the market have become significantly more bearish since the writing of the last report. At that stage, many economists were arguing that the first 50bp increase in interest rates may be a one-off. One rate increase later and expectations have in our opinion swung from being too bullish to being too bearish. The FRA curve is now discounting a further 150bp increase within the next 12 months, and many commentators are warning against further increases of 3-4%. We believe these expectations are overdone (expecting at most a further 2-3 50bp increases), and as such creating opportunity in the listed property market.

We believe fundamentals for the sector remain good. Growth expectations have in fact increased marginally to 11.1% and 9.5% for the next two years respectively. Importantly though, given our interest rate expectations, we do not see a material negative change to medium term fundamentals for the sector. The average property stock is now trading at a clean forward yield around 9%, and premium to NAV of 20%, which is quite reasonable in our opinion.

We are sticking to our view of positioning the fund in the quality counters with more robust rental streams through the cycle. Despite the anticipated recovery in the office sector, our preference is still for retail. Our view (and international experience has borne this out) is that big regional malls are both more defensive and provide better rental growth over the long term compared to the office and industrial sectors.

Major transactions during the quarter include selling out of Pangbourne, reducing our exposure to Redefine and Liberty International, and further building our position in Growthpoint.

In summary we see reasonable opportunities within listed property currently, though volatility may remain high in the next few months. We believe stock-picking in the fund will become increasingly important, and will continue to use the asset allocation flexibility mandated within the fund.

**Edwin Schultz**  
Portfolio Manager

Fund category	Domestic Asset Allocation Flexible Property
Launch date	20 November 2000
Portfolio manager	Edwin Schultz
Fund size	R953.2 million
NAV	2291.91 cents
Annual management fee	1.25% (ex VAT)

<b>Benchmark</b>	Flexible Property Funds Mean
<b>Fund description</b>	Invests in quality listed property assets with the aim to produce high income yields and long-term capital growth.

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2006
Domestic Assets	100.00%
Preference Shares & Other Securities	2.22%
Real Estate	95.94%
Cash	1.84%
International Assets	0.00%

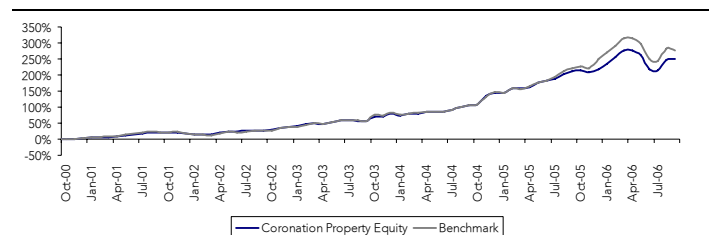
### PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	9.92%	7.85%
Latest 12 months	18.04%	18.21%
Latest 36 months (annualised)	33.04%	34.23%
Latest 60 months (annualised)	25.15%	25.37%
Since inception (annualised)	24.83%	25.14%
Annual deviation since inception	12.04%	13.06%
Sharpe ratio	1.22	1.17
Maximum gain	40.44%	33.80%
Maximum drawdown	-16.66%	-17.09%
Positive months	73.24%	67.61%

### TOP 10 HOLDINGS

As at 30 September 2006	% of Fund
Growthpoint Properties Ltd	19.45%
Hyprop Investments Ltd	15.93%
Allan Gray Property Trust Ltd	15.69%
Apexhi "A"	11.12%
Syfrets and CU Property Fund	9.58%
Resilient Property Income Fund	5.98%
Accucap Properties Ltd	5.30%
Liberty International Plc	4.62%
Hospitality Property Fund	3.02%
Foord Compass Debentures	2.22%
<b>Total</b>	<b>92.91%</b>

### CUMULATIVE PERFORMANCE SINCE INCEPTION



### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2006	01/10/2006	38.62	-	38.62
30/06/2006	01/07/2006	29.13	2.59	26.54
31/03/2006	01/04/2006	26.93	5.12	21.81
31/12/2005	01/01/2006	24.71	0.83	23.88

### ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	36.69%	42.07%	-5.38%
2004	35.27%	35.00%	0.27%
2003	30.11%	33.39%	-3.29%
2002	17.91%	16.71%	1.20%
2001	14.99%	14.02%	0.97%
2000	2.20%	2.66%	-0.46%

### MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2006	5.73%	5.98%	6.20%	-0.22%	-4.15%	-12.36%	-0.57%	10.64%	0.18%			
B'mark 2006	5.51%	6.07%	6.10%	-0.14%	-4.14%	-12.24%	-1.31%	11.06%	-1.37%			
Fund 2005	0.68%	5.25%	-0.06%	1.45%	5.22%	2.12%	2.66%	4.88%	2.41%	1.32%	-1.44%	7.53%
B'mark 2005	-0.57%	6.08%	-1.17%	2.84%	4.48%	2.77%	3.39%	6.14%	2.61%	2.39%	-1.98%	9.20%