

"Anybody familiar with the workings of a Tupperware party will recognise the use of various weapons of influence" Robert Cialdini, *Influence: The Psychology of Persuasion*

Cialdini outlines 6 tendencies of human behaviour which induce us to change our behaviour or comply with a request. A few of these tendencies are very relevant for decision making in an investment context. One of the tendencies (social validation) is rampantly operative in our current resources investment environment. One of the main ways we make decisions is by observing the decisions of others – social validation. To return to the Tupperware party while the single most important facet might be to say yes to people you like, of critical importance is the social validation which comes from seeing others buying the product. Each transaction demonstrates that others want the product!

Investment professionals have ample opportunity to observe the behaviour of their peers. The "quarteritis" of the unit trust environment together with holdings disclosure means that we all know what the others are doing. According to Cialdini we have an innate tendency to want to do what others are doing. Indeed their actions persuade us that we should be doing the same. This would be very useful in many risky situations one can think of but not in investments! If we do what the others do our outcomes would be identical or worse. There would be no opportunity to deliver performance better than average. Naturally the more one moves away from the herd the riskier life gets – if one defines risk as an outcome significantly different from that of the herd. We however take comfort from the words of Charles MacKay "Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they recover their senses slowly, and one by one" in *Extraordinary Popular Delusions and the Madness of Crowds*, 1895.

This said we actively seek out opportunities to be different from the herd where that difference comes with very little extra risk. Two recent examples of this quest are the purchase of African Rainbow Minerals in the first quarter of the year and the decision to take the fund to the maximum level of foreign ownership allowable for a domestic fund in the previous quarter.

The fund delivered a return of 2.4% in the quarter behind the FTSE/JSE African Resources Index which returned 2.95%. In the quarter African Rainbow Minerals delivered a price performance of 42% making it the best performing stock in our universe. I'll quote from the March commentary: "We added African Rainbow Minerals to the portfolio in the quarter; this was a valuation driven decision. Investors tend to perceive African Rainbow Minerals as a proxy for Harmony given the size of Harmony in African Rainbow Minerals' NAV. We however were drawn to the investment by their other assets, especially the platinum projects which are yet to deliver." Please note that Harmony delivered a negative return of 12% in the last quarter. This was a view that worked big time!

The rand devalued by 8% in the last quarter, strangely many local rand geared companies declined in value despite the weakness of the currency, largely driven by the early indications of a fall off in dollar metal prices – something we have been waiting for. In most cases the benefit conferred by the currency move was lost in the negative hard currency price movements of the foreign holdings. In the event the strategy was better than buying the index as the international assets delivered a return of 4.8%.

In the quarter we sold Anglo American and bought BHPBilliton. We believe that bid speculation and rand devaluation fear have driven Anglo American to levels very hard to justify with aggressive assumptions. Goodbye herd. We bought a significant amount of Aquarius Platinum. This stock now accounts for 8% of the assets of the fund. We love platinum and this is the cheapest cash flow producing platinum stock with significant volume growth in the next year. They will be doing a de facto share buy-back in the near term and are fully empowered in the South African assets. Being an African foreign inward listing we would be limited to a 5% exposure were we not able to buy the stock in London to bring our total up to the 10% limit for unit trusts.

We remain concerned about the absolute level of dollar metal prices. Some measure of sanity has returned to asset valuations with companies like BHPBilliton falling by 25% in hard currency, but the end of the party has only just begun. We are confident in the positioning of the fund to weather the storm and look forward to the December quarterly comment by which time we'll know whether Christmas 2006 was a happy one. A word for the wise over the holidays – do not attend any Tupperware parties!

Hugo Nelson and Henk Groenewald
Portfolio Managers

Fund category	Domestic Equity Resources & Basic Industries
Launch date	1 October 1999
Portfolio manager	Hugo Nelson and Henk Groenewald
Fund size	R91.4 million
NAV	5407.01 cents
Annual management fee	1.00% (ex VAT)

Benchmark	Resources & Basic Industries Sector Mean
Fund description	Invests in a broad range of resource and basic industry counters that are affected by changes in the commodity cycle.

EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2006
Domestic Assets	84.33%
Equity	81.04%
Oil & Gas	15.39%
Basic Materials	63.53%
Industrials	1.61%
Consumer Services	0.51%
Cash	3.29%
International Assets	15.67%
Equity	15.29%
Cash	0.38%

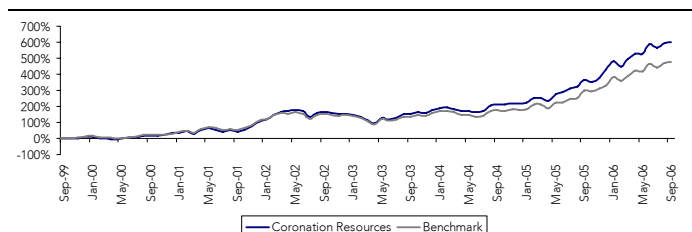
PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	32.62%	33.66%
Latest 12 months	43.76%	43.96%
Latest 36 months (annualised)	38.83%	35.03%
Latest 60 months (annualised)	36.14%	31.48%
Since inception (annualised)	31.25%	29.83%
Annual deviation since inception	23.24%	22.70%
Sharpe ratio	0.91	0.87
Maximum gain	93.37%	75.65%
Maximum drawdown	-23.81%	-23.54%
Positive months	63.10%	60.71%

TOP 10 HOLDINGS

As at 30 September 2006	% of Fund
Sasol Ltd	15.39%
BHP Billiton Plc	15.38%
Impala Platinum Holdings Ltd	10.28%
Mittal Steel SA	8.06%
Aquarius Platinum Ltd	8.01%
Anglo American Plc	7.89%
Anglogold Ltd	5.04%
African Rainbow Minerals Ltd	4.22%
Eland Platinum Holdings Ltd	4.11%
Petrolio Brasileiro S.A.A.	2.98%
Total	81.36%

CUMULATIVE PERFORMANCE SINCE INCEPTION



INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2006	01/10/2006	34.32	30.33	3.99
31/03/2006	01/04/2006	169.56	160.77	8.79
30/09/2005	01/10/2005	43.09	37.01	6.08
31/03/2005	01/04/2005	38.06	30.33	7.73

ANNUAL RETURNS SINCE INCEPTION

	Fund	Benchmark	Active Return
2005	60.04%	55.63%	4.40%
2004	13.37%	6.94%	6.42%
2003	9.23%	6.09%	3.14%
2002	23.18%	16.02%	7.16%
2001	55.61%	70.68%	-15.07%
2000	20.09%	17.94%	2.15%
1999	10.92%	12.76%	-1.84%

MONTHLY PERFORMANCE RETURNS

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Fund 2006	10.32%	-5.97%	8.00%	6.12%	-0.09%	9.03%	-3.33%	4.25%	1.61%			
B'mark 2006	11.33%	-4.83%	7.03%	6.36%	-0.42%	8.70%	-3.98%	5.29%	1.27%			
Fund 2005	3.00%	8.37%	0.67%	-5.79%	12.94%	2.93%	6.16%	1.88%	10.92%	-3.04%	5.56%	5.91%
B'mark 2005	2.39%	9.27%	-0.16%	-6.31%	10.93%	0.58%	6.69%	2.37%	13.30%	-2.24%	4.56%	5.37%