

The Fund had a good quarter, returning 9.8%. This compared favourably with the mid and small-cap indices which both returned 9.7%, and the Top 40 index which returned 5.9%. The sell-off of shares which occurred in the second quarter as a result of emerging market jitters and interest rate hikes was reversed in the third quarter, with the Fund now in positive territory (up 3%) for the past 6 months.

Some of the new counters in the Fund include Foschini, Coronation Fund Managers and Woolworths.

Foschini was one of the worst affected counters in the interest rate sensitive sell-off. We bought in during the quarter at around R42, some 35% off its mid-May peak of R65. We are of the firm opinion that this sell-off was overdone, despite the rising interest rate environment.

Woolworths was another casualty of the sell-off, down some 28% from its May peak. This is despite the fact that half of its profits are generated by its growing and defensive food business. In addition, its clothing business is less exposed to fashion risk and is consequently more defensive than other clothing retailers. We therefore took the opportunity to buy Woolworths as it dropped out of the Top 40 index during the quarter.

Our purchase of Coronation Fund Managers during the quarter was motivated by several factors. The company continues to generate significant cash flows, allowing it to pay approximately 75% of its earnings in dividends (an after tax yield of over 7%). It has also been buying back its own shares, which is not only value enhancing to remaining shareholders, but also displays the confidence that management has in the business.

Some of the more significant sales during the quarter include Omnia Holdings and Pick 'n Pay Holdings.

Omnia has been a fantastic performer for the Fund in the past while, being up some 65% since November 2005. A year ago, when pessimism surrounding the stock abounded, we accumulated a healthy position. Now that optimism has replaced that pessimism, we have been reducing our holding. While we fully expect the company to perform very well for the next 2 years, we believe that this is reflected in the current share price and that better opportunities can be found elsewhere.

The Fund is not expensive, trading on a weighted 1-year forward PE multiple of 9.6 times. We will continue to adopt the same strategy of buying what we consider to be undervalued companies, and selling fair to overvalued companies. This often means that we buy shares in out-of-favour counters and sell shares in favoured counters in the belief that this sentiment will turn. Omnia Holdings was a good example of this strategy. There are a few other holdings in the Fund currently which have been out of favour with investors, but which we expect to turn around in the next year. We believe the Fund will benefit from these holdings going forward.

**Alistair Lea**  
Portfolio Manager

Fund category	Domestic Equity Smaller Companies
Launch date	1 April 1997
Portfolio manager	Alistair Lea
Fund size	R155.4 million
NAV	3189.46 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.

### EFFECTIVE ASSET ALLOCATION EXPOSURE

Sector	30 Sep 2006
<b>Domestic Assets</b>	<b>100.00%</b>
<b>Equity</b>	<b>97.40%</b>
Basic Materials	6.92%
Industrials	6.90%
Consumer Goods	15.87%
Consumer Services	53.90%
Financials	6.96%
Technology	6.85%
<b>Cash</b>	<b>2.60%</b>
<b>International Assets</b>	<b>0.00%</b>

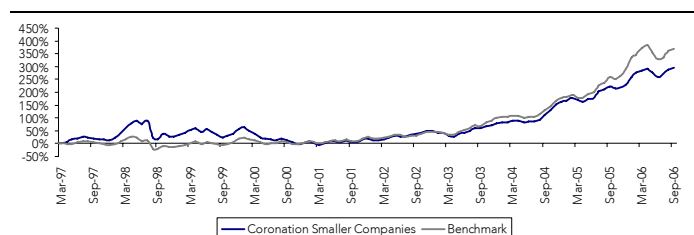
### PERFORMANCE AND RISK STATISTICS

	Fund	Benchmark
Year to date	20.32%	19.63%
Latest 12 months	25.18%	31.28%
Latest 36 months (annualised)	35.74%	40.52%
Latest 60 months (annualised)	31.07%	33.80%
Since inception (annualised)	15.76%	17.66%
Annual deviation since inception	23.25%	19.75%
Sharpe ratio	0.17	0.29
Maximum gain	67.21%	43.41%
Maximum drawdown	-37.63%	-30.55%
Positive months	63.16%	62.28%

### TOP 10 HOLDINGS

As at 30 September 2006	% of Fund
Cashbuild Ltd	5.25%
Distell Group Ltd	4.83%
Famous Brands Ltd	4.61%
Mr Price Group Ltd	4.32%
Adcorp Holdings Ltd	3.93%
New Clicks Holdings Ltd	3.72%
Tiger Wheels Ltd	3.66%
Primedia "N" Ltd	3.55%
Massmart Ltd	3.07%
Spar Group Ltd	3.05%
<b>Total</b>	<b>39.99%</b>

### CUMULATIVE PERFORMANCE SINCE INCEPTION



### INCOME DISTRIBUTIONS

Declaration	Payment	Amount	Dividend	Interest
30/09/2006	01/10/2006	24.70	22.43	2.27
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

### 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%	4.01%	3.94%	1.58%			
B'mark 2006	11.23%	2.69%	5.34%	2.23%	-5.83%	-5.88%	1.85%	5.89%	1.75%			
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%