sim value fund

Fund Objective

This is a pure equity fund diversified across all sectors of the JSE. It offers a reasonable level of current income and the potential for long term outperformance. The fund manager only invests in shares which are undervalued and is very aware of downside risks. A maximum of 20% offshore assets may be held.

Fund Strategy

This fund may invest in any listed share, but focuses on financially sound companies which offer exceptional value. These include shares with a low price to earnings ratio; shares trading at a discount to their net asset value and shares whose price does not yet reflect future earnings potential.

Why choose this fund?

- The fund attempts to hold stocks which are intrinsically underpriced by the market.
- Value is determined by a variety of methods. In this regard, the fund leverages off the considerable research capability of the house process.
- Essentially we are looking for companies that are cheap, relative to their dividends, cash flows or asset base.
- In addition, we try to minimise downside risk.
- Lastly, because the market cycle can change and then persist for quite a while, we try to be pragmatic when we make decisions, i.e. we don't take a short term view.

Fund Information

Classification	Domestic – Equity – Value
Portfolio manager(s)	Ricco Friedrich | Claude van Cuyck
Risk profile	High
Benchmark	FTSE/JSE All Share Index
Launch date	01 Oct 1998
Minimum investment	Lump sum: R5 000 | Monthly: R200
Fund size	R2 246.3 million
Last two distributions	31 Dec 2010: 4.54 cents per unit 30 Jun 2011: 18.38 cents per unit
Income decl. dates	30 Jun | 31 Dec
Income price dates	1st working day in July and January
Valuation time of fund	15:00
Trading closing time	15:00
Trustee	Standard Bank of SA

Fees (Incl. VAT)

	Retail Class (%)
Initial fee **	5.70
Annual management fee ***	1.53
Total Expense Ratio (TER)*	1.75

** includes intermediary fee of 3%

*Total Expense Ratio (TER) - This fund (Retail Class) has a TER of 1.75%. For the period from 01 July 2010 to 30 June 2011 1.75% of the average net asset value of the portfolio was incurred as charges, levies and fees related to the management of the portfolio. The ratio does not include transaction costs. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER can not be regarded as an indication of future TER's. Inclusive of the TER of 1.75%, a performance fee of 0.08% of the net asset value of the class of participatory interest of the portfolio were recovered.

***Performance Fees: Minimum fee of 1.53% p.a. (incl. VAT)
Fee Hurdle: FTSE/JSE All Share Index; Sharing Rate: 20%; Maximum fee: 3.42% (incl. VAT). If the fund performs in line with the fee hurdle (described above), then the fee is 1.53% p.a. (incl. VAT). The performance fee is accrued daily, based on daily performance and paid to the manager monthly.

The portfolio manager may borrow up to 10% of the market value of the portfolio to bridge insufficient liquidity. This fund is also available via certain LISPS (Linked Investment Service Providers), which levy their own fees. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or own.

Top 10

Securities	% of Portfolio
Anglo	8.18
MTN	5.39
Sanlam Global Best Ideas	5.30
Sasol	5.04
Stanbank	4.69
Bidvest	4.15
BTI Group	4.04
ABSA	3.99
Britvic Plc	3.50
Old Mutual	3.00

Top 10 Holdings as at 30 Jun 2011

Performance (Annualised)

Retail-Class	Fund (%)	Benchmark (%)
1 year	11.66	16.88
3 year	12.11	6.75
5 year	12.23	10.08

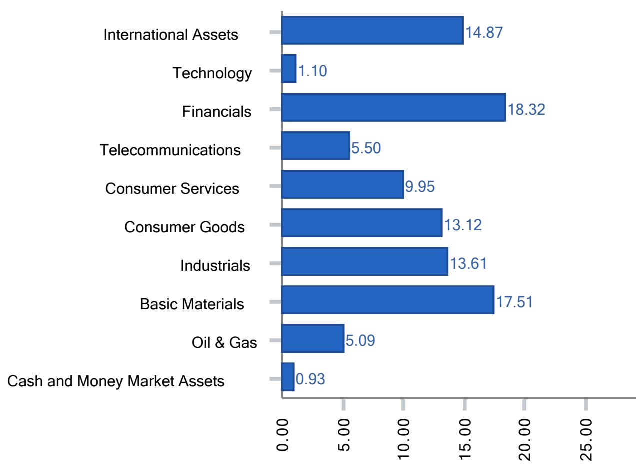
Performance (Cumulative)

Retail-Class	Fund (%)	Benchmark (%)
3 year	40.96	21.65
5 year	78.05	61.64

Risk statistics: 3 years to 31 Aug 2011

Std Deviation (Ann)	15.45
Sharpe Ratio	0.01

Portfolio Detail



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Market review

While this has been one of the weakest post World War II US economic recoveries, surprisingly commodity prices have recorded their strongest ever performance during an economic rebound and the S&P 500 has experienced its fifth strongest rally out of the last 34. The stark contrast between the economic recovery and rising asset prices, as highlighted above, is a key trend to watch going forward. Further disconnect would significantly increase the risk of a meaningful correction in asset prices.

In SA, the recovery in equity prices since March 2009 has been below the average of the last fifty years. As in the US, however, the earnings recovery so far has not matched the price recovery and hence we have seen a rerating in price-to-earnings (PE) ratios. If you are in doubt, consider for a moment that of the companies that reported results during the first half of the year, 31% still reported a decline in earnings per share, highlighting that the recovery is by no means yet broad based.

What added to - and detracted from - performance

During the quarter, the portfolio underperformed its benchmark. Stocks that contributed to this performance were Gold Fields (-16%), African Bank (-10%) and Steinhoff (-8%).

The price of Gold Fields fell along with all gold companies around the world. Ongoing concerns around rising costs and the announcement that Barrick was acquiring Equinox Resources in the copper sector has been interpreted by the market as gold companies needing diversification to grow profitability in the long term. As with all mining companies around the world, all future projects will cost significantly more. Without a commensurate increase in the price of gold, the premium value attached to gold companies will disappear. Gold Fields' premium to net present value has already disappeared based on a conservative valuation for new projects.

Post the African Bank results it seems the market was disappointed with the growth in headline earnings per share relative to the strong growth in advances. Furthermore, concerns around future bad debt write offs due to rapid loan growth have increased the uncertainty around future earnings growth. We believe the upside to fair value already reflects some of these concerns and thus we added to our investment.

Finally, we added to our Steinhoff position after it came off in line with European stocks.

Stocks that made a positive contribution to performance were Lewis (+12%), Digicore (+27%) and Basil Read (+16%). Lewis continues to execute very well on their new store rollout strategy. This is a well managed business trading below our assessment of fair value.

What SIM did

New holdings added during the quarter included Britvic, which is the largest Pepsi bottler listed in the UK. It has been under pressure due to rising short-term costs and a poor UK trading environment. Both these factors are unlikely to persist indefinitely. We sold out of our investments in Reunert, Nampak, Adcock, Dell and Wellpoint.

SIM strategy

The SA equity market PE ratio has de-rated since the beginning of the year due to rising earnings and flat prices. While the economic recovery remains fairly fragile, without any further shocks we foresee a continuation of the slow but bumpy recovery. Valuations are not excessive unless earnings expectations are far too high.

Currently, the short term outlook and trends trump considerations of value. There are very few opportunities that are significantly mispriced compared to the recent past and a lot of these are in the basket of companies whose earnings are still falling. These companies have enormous operating, and in some cases financial, leverage to an economic recovery.

Portfolio Manager

Claude van Cuyck

BCom (Hons) (Cum Laude), CFA

Ricco Friedrich

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