

Table of Returns

For the period ended 30 June 2012

Total Returns of RE:CM Funds (annualised after fees %)

Fund	Inception	1 Year	3 Years	5 Years	Since Inception
RE:CM Global Flexible Fund (ZAR)	Apr-03	11.5%	12.5%	7.0%	15.4%
CPI + 8% p.a (ZAR)		13.7%	12.9%	14.6%	13.7%
RE:CM Flexible Equity Fund (ZAR)	Mar-05	5.0%	14.7%	4.8%	15.9%
FTSE/JSE ALSI (ZAR)		9.2%	18.4%	6.5%	16.9%
RE:CM Global Fund (USD)	Mar-06	0.9%	11.1%	4.5%	5.3%
MSCI World (USD)		-4.4%	11.6%	-2.4%	1.5%
RE:CM Global Feeder Fund (ZAR)	Mar-07	20.4%	13.1%	5.1%	4.3%
MSCI World (ZAR)		15.1%	13.6%	0.5%	1.1%
RE:CM Australia Equity Fund (AUD)	Mar-10	-2.5%	n/a	n/a	1.7%
ASX 300 Accumulation Index (AUD)		-7.0%	n/a	n/a	-3.5%
RE:CM Money Market Fund (ZAR)	Oct-10	5.7%	n/a	n/a	5.6%
STeFI Call (ZAR)		5.3%	n/a	n/a	5.3%

Major Market Returns (annualised, in US dollars)

Index	6 Months*	1 Year	3 Years	5 Years
S&P 500	8.3%	3.1%	14.0%	-2.0%
FTSE 100	1.1%	-8.5%	7.7%	-8.0%
Nikkei 225	2.8%	-7.4%	3.0%	-5.2%
MSCI World	6.3%	-4.4%	11.6%	-2.4%
MSCI Emerging Markets	2.3%	-18.2%	7.2%	-2.4%
FTSE/JSE ALSI	3.9%	-12.7%	13.1%	0.5%

Major Currency Returns (annualised, against the US dollar)

Currency	6 Months*	1 Year	3 Years	5 Years
South African Rand	-1.1%	-17.2%	-1.9%	-2.9%
Euro	-2.3%	-12.7%	-3.4%	-1.3%
UK Sterling	1.0%	-2.2%	-1.5%	-4.8%
Japanese Yen	-3.6%	0.9%	6.5%	9.1%
Swiss Franc	-1.1%	-11.4%	4.6%	5.2%
Australian Dollar	0.3%	-4.5%	8.3%	3.8%

Source: RE:CM, Micropal , Bloomberg, NAV-NAV, Gross income re-invested

*Not Annualised

RE:CM Money Market Fund

The RE:CM Money Market Fund aims to preserve capital, provide overnight liquidity and generate a yield in excess of the STeFI call rate.

Fund Details

Fund Size	R1.4bn
STeFI Benchmark	Daily Call
Annual Fee	0.15% (Excl VAT)

Top 5 Holdings (%)

ABSA	29.0%
Nedbank	29.0%
Investec	15.0%
Standard Bank	14.0%
Firststrand	12.0%

TER is 0.19%.

There is no performance fee.

Investment Results

Local interest rates have declined due to the renewed crisis in Europe, lower inflation and poor economic data. European banks remain the key concern, as well as the inability of indebted European economies to stimulate economic growth. The US Federal Reserve has extended its quantitative easing by introducing Operation Twist. The Bank of England also recently voted to extend their quantitative easing programme and provide liquidity to the struggling banks. Quantitative easing is another term for the process whereby central banks print money in the hope of reducing long-term rates to boost the economy. So far these programmes have not generated commendable results, hence the persisting crisis.

On the home front, short-term rates have declined significantly from their highs in January 2012. The local market anticipates the Reserve Bank will cut the repo rate later this year. It seems headline inflation is gradually declining on the back of lower commodity prices and a strengthening currency. The decline in inflation, weaker credit growth, retail sales growth and manufacturing data will give the Reserve Bank credible reason to cut rates. We believe the risk of a rate cut is high, given the struggling 'main-street' economy.

The Fund continues to generate a top income yield on the back of our low fees and better yielding step-up instruments. It currently generates a yield of 5.9% versus a STeFI Daily Call yield of 5.4%. We must emphasise that the high yield has not been earned by investing in risky instruments or counterparties. We remain committed to our mandate of investing in high quality counterparties.

Management Actions

The Fund increased its investment in fixed instruments prior to the decline in money market rates. This has lengthened the duration of the Fund to 90 days. The Fund now has a 50% split in floating rate and fixed rate instruments. While rates have declined materially, we continue to see value in the step-up instruments. Step-up instruments offer good value over the long term, compared to the current flattening money market yield curve.

If the European fiscal crisis continues unabated, we would expect the Reserve Bank to cut interest rates to boost the economy. The Fund is currently positioned to generate incremental interest income over the next 12 months.

Sean Neethling (under supervision), Piet Viljoen
Portfolio Managers

RE:CM Global Flexible Fund

6

The aim of the RE:CM Global Flexible Fund is to generate returns in excess of inflation over the long-term, at below average levels of risk. In the short-term, the fund aims to limit capital losses.

Fund Details

Fund Size	R1.2bn
Benchmark	CPI + 8%
Performance Fee	20% above/below CPI + 8%
Annual Fee	1% annual fee excl. VAT

Portfolio Diagnostics

	Fund
P/E Ratio	14.4
Dividend Yield	1.9%
Volatility	7.6%
% Maximum Drawdown*	-11.5%
% Positive Months	72.7%
% Turnover Rate **	28.4%
Concentration of Top 10 Holdings	33.8%

*Life of Fund

** Trailing 12 months

TER is 1.30%.

There is no performance fee.

Investment Results

The Fund capital has compounded at 15.4% per annum, after fees, since inception in April 2003. This compares favourably with the Fund's benchmark return of inflation plus 8%, which equates to 13.7% per annum. In the six months from January to June 2012, the Fund price increased by 3.4% after fees, below the benchmark return of 6.8%.

Based on current South African asset markets, our research and portfolio construction processes exposes us to cheap assets that are getting cheaper (hotels, gaming, and commodities, specifically platinum); and protects us from expensive assets that are getting more expensive (retail, defensives, lenders, bonds and property). This also happened early in 2008, but with different industry role-players.

Currently there is no obvious penalty for being invested in the comfort of positively trending asset prices and, as always, there will be no warning bell to announce a turning point. Evidence and experience tell us that sticking to our valuation-based philosophy and process in the face of external criticism is the right course of action. As usual, we have no idea when markets will turn, but we take comfort in knowing that no one else does either.

We continue to try and avoid catching falling knives, but buying early is a necessary evil and something our investors should both expect and demand from us. Taking on the significant discomforts and angst that Mr Market serves up regularly is exactly why investors appoint us as custodians of their savings. We willingly accept this short-term pain because it is what helps us generate the acceptable long-term investment returns that the Fund's investors have enjoyed over the past nine years.

Fund Composition

Please refer to the table and the pie chart on the left. The key changes since December 2011 are:

- South African equity exposure declined substantially from 33% to 28%.
- Global equity exposure increased from 39% to 43%.
- Overall equity exposure has therefore declined from 73% to 71%.
- Exposure to assets denominated in currencies outside South Africa increased from 48% to 52%.

Three Key Risks

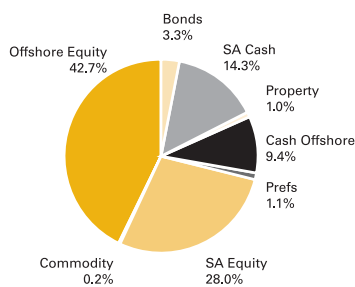
1. Global markets avoiding risk

With emerging markets (including South Africa) being priced at a premium to developed markets, a material repositioning away

Top 10 Positions (%)

Sun International	5.7%
Carrefour	4.5%
Amplats	3.8%
Microsoft	3.8%
Coca-Cola Hellenic	3.1%
Berkshire Hathaway	3.0%
BP	2.8%
Johnson & Johnson	2.5%
Discovery	2.4%
Anglo American	2.2%

Asset Allocation



from risk should result in a sell-off of emerging market assets as well as emerging market currencies.

2. The impact of a major economic slowdown in China

Chinese slowdown should result in a further sell-off of commodities, commodity stocks and commodity currencies like the South African rand. This would in turn put pressure on domestic inflation, interest rates and long-duration yield assets such as government bonds, as well as corporate bonds and property. For corporate bonds and property, it would be more severe if spreads also widen, which is highly probable.

7

3. Reaching for yield at the wrong time

Record-low interest rates have swayed the argument in favour of risk assets over cash. This may have attracted investors to higher-yielding assets like bonds, property and high-yielding equities at precisely the wrong time. Corporate profit margins are very high while corporate tax rates and dividend cover for the highest yielding stocks are very low. This implies that, from an absolute capital preservation perspective, a maximum yield strategy is very risky right now.

Three Key Opportunities

1. The Platinum Industry

According to capital cycle analysis: when capital becomes scarce and competitive forces lessen due to business failure in an industry, an opportunity arises for surviving businesses to generate better results in the future. In most cases, the surviving businesses become stronger because they are operating in a more consolidated competitive environment. An example would be the South African banking industry shake-out of 12 years ago. An opportunity arose for the big four banks, as well as Capitec and African Bank, to do so well in a more consolidated banking environment that it led to almost no new business formation.

A respected South African publication recently published the front-page headline 'The Disappearing Platinum Industry'. The bad news is that capacity closure and funding issues are coming thick and fast in the platinum industry. This suggests that the parts of the capital cycle that we've built our investment thesis on are now being set in motion. The good news is that it is happening faster than we thought and from our experience capital cycles take time to fully mature. For example it takes at least seven years to bring a new platinum mine shaft into production.

2. Natural Gas Companies

The price of natural gas plummeted below the cost of extraction and close to all-time lows due to a classic squeeze created by oversupply and low demand. One of our analysts, Razeen Dinath, has just completed an exhaustive study of the natural gas market in the USA and came to the conclusion that there are excellent investment opportunities, specifically in a good quality listed business called Ultra Petroleum.

3. Europe

According to our filters there are an increasing number of investment ideas across South and North Western Europe. As a result our analysts will continue to do more focused work on this region going forward. So far the European woes are largely due to the macroeconomic and political concerns. However, as we have experienced many times in South Africa over the past 30 years, these are precisely the sort of 'end of the world' conditions that produce deeply discounted investment opportunities.

How the risks and opportunities affect our investors

- Our investors predominantly own the equity of high quality businesses with pricing power and low levels of financial leverage in addition to high quality cash money market assets with reputable counterparties.
- Our investors have significant offshore exposure with over half of the Fund in non-rand denominated assets.
- The Fund includes no government bonds, a small exposure to the senior corporate bonds of a good quality and conservatively financed business that we are holding to maturity, and a very small exposure to the equity of one listed South African property company.
- The Fund's South African equity exposures have included resource companies of late that are far below maximum exposure. If the economic slowdown in China does take place we look forward to allocating more Fund capital to these new ideas when they are even cheaper.

How we are managing the risk and making use of the opportunities

- We are aware of the risks of industry-specific exposures, specifically in a subsector like platinum that is exposed to a single commodity and the risk of technological obsolescence. Our investment process is designed to manage these combined exposures because it limits the amount of Fund capital allocated to lower quality commodity businesses that operate further up

the industry cost curve. Resource businesses will remain appropriately scaled relative to their opportunity/risk profile in the context of the Fund.

- We have purchased Ultra Petroleum.
- We have been increasing the Fund's exposure to listed European businesses consistently.
- We are currently doing a fair amount of research to uncover more European investment ideas.

Management Actions

The table below summarises the five largest purchases and sales for the Fund in the first half of 2012.

Equity in high quality businesses listed in Europe dominates the purchasing side of the ledger. This is followed by two newer investment ideas in the resources sector in South Africa. Few people are aware of the fact that the resources sector has significantly underperformed on the FTSE/JSE All Share Index for the past 10 years despite the so-called 'commodity super-cycle'. Given this information it is not surprising that our analysts have lately found some value in this unloved part of the market.

Following a poor quarterly trading update, which has absolutely nothing to do with the value of the business, Dell's share price declined substantially and the portfolio managers were able to allocate more Fund capital at a very appealing price-to-value ratio.

Following outsized positive price gains, we sold down exposures in Old Mutual, Harmony and Discovery, while Vodafone and Johnson & Johnson were reduced to make space for newer and far cheaper investment ideas.

Investment Return Expectations

Currently, the FTSE/JSE All Share Index is at a fresh all-time high, the MSCI World Index is at double the 2009 low point, and bond yields are at record lows. We remain unexcited about the price-to-value

Capital Allocations	Capital Realisations
Carrefour	Old Mutual Plc
Anglo American Plc	Vodafone Group Plc
Coca-Cola Hellenic Bottling	Johnson & Johnson
Anglo American Platinum	Harmony Gold Mining
Dell	Discovery Holdings

relationships of the main equity indices and are downright pessimistic about bonds and property.

There are three scenarios that could unfold.

The first scenario is that asset prices decline meaningfully. Our investors are very well positioned for this outcome from a relative perspective. However, our investors do not eat relative returns and as their co-investors, neither do we. In such a situation we can only hide in cash, and our investors should expect a small decline in the Funds' pricing over the short-term, which would be perfectly normal. Due to an improvement in the price-to-value relationship of the Fund, our comments on prospective return expectations should become increasingly optimistic.

According to the second scenario, markets continue going up from these levels. If this happens we anticipate a further positive move in the Fund price and further declines in the Funds total equity exposure. In this situation, our comments on prospective return expectations for the Fund will become more pessimistic.

The third scenario is that market prices go nowhere. Our list of new ideas to research looks very promising and we will continue adding more assets to our circle of competence. If they are quality businesses and are cheap enough, our portfolio managers will allocate Fund capital to them, thereby raising the Funds' exposure to equity.

These are indeed very interesting times, perhaps even more so than usual, filled with risks and opportunities. A multi-asset class, multi-geography Fund like the Global Flexible Fund is the perfect vehicle to navigate these waters. We trust that this communication allows our investors to better understand the way we at RE:CM think about investments and the current positioning of the Fund. We would appreciate the opportunity to answer any questions.

Daniel Malan
Portfolio Manager

RE:CM Flexible Equity Fund

10

The RE:CM Flexible Equity Fund's aim is to outperform the FTSE/JSE All Share Index (including income) by 2.5% per annum over the long term, with lower than average risk of capital loss and with less volatility than the Index.

Fund Details

Fund Size	R1.2bn
Benchmark	ALSI
Performance Fee	20% above/below ALSI +2.5%
Annual Fee	0.5% annual fee excl. VAT

Portfolio Diagnostics

	Fund	ALSI
P/E Ratio	11.3	11.3
Dividend Yield	2.0%	3.3%
Volatility	13.6%	17.4%
% Maximum Drawdown*	-27.1%	-40.4%
% Positive Months	66.7%	63.6%
% Turnover Rate **	28.6%	n/a
Number of Holdings	43	161
Concentration of Top 10 Holdings	42.9%	53.4%

* Life of Fund

** Trailing 12 months

TER is 0.58%.

There is no performance fee.

Investment Results

The RE:CM Flexible Equity Fund delivered a total return of 2.1% for the six months to the end of June 2012. This compares poorly with the return of 7.0% delivered by the benchmark FTSE/JSE All Share Index. Broadly speaking, this lacklustre performance of the Fund compared to that of the index can be attributed to the fact that the South African market again seems to find itself in a situation where expensive and popular market sectors are being bid up to ever higher prices. This is due to a momentum and sentiment driven rally that has become divorced from long-term economic fundamentals. Meanwhile, reasonably priced assets (that the Fund owns) are becoming even cheaper due to negative sentiment and poor short-term prospects.

The situation bears striking resemblance to the situation in the South African market in early 2008, except that roles have reversed. In 2008, resources shares were the market leaders, and financials and industrials were the laggards, whereas today the opposite is true. In the first six months of 2008, the FTSE/JSE Resources Index outperformed the FTSE/JSE Financials and Industrials Index by 50%. In the first six months of 2012, the same Financials and Industrials Index outperformed the Resources Index by almost 25%. The fact that the resources sector has such a large weight in the FTSE/JSE All Share Index means that the overall market performance has been fairly modest, despite the very strong recent performance of financials and industrials.

Despite the 'commodity supercycle' of the past decade, the resources sector has underperformed the FTSE/JSE All Share Index substantially for the past 10 years. After avoiding resources shares for the better part of RE:CM's almost ten years of existence, we have increasingly been allocating the Fund's capital to the sector over the past year. Our perceived bias against resources has always been the result of two factors: a relative lack of quality businesses in the sector, and share prices that were unattractive relative to their intrinsic values for much of the past decade. The latter of these two factors has now started to change.

The Fund's investment into the resources sector has been predominantly into the platinum sector to date, but diversified miners are also starting to attract our attention (refer to Management Actions below). Unfortunately, the platinum sector has continued its underperformance of the (poorly performing) broader resources sector during the past six months, which held back the returns generated by the Fund. Some of the other detractors from performance are discussed below in 'Good Ideas At The Time'.

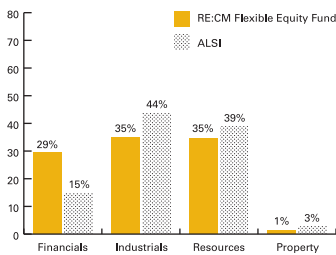
Management Actions

Resources and basic materials shares dominate the list of top purchases for the past six months, and at the very top of the list is

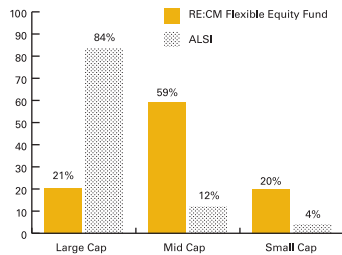
Top 10 Positions (%)

Sun International	9.3%
Amplats	5.9%
HCI	5.1%
Discovery	5.0%
Anglo American	3.8%
MMI Holdings	3.6%
Lonmin	3.1%
Harmony	2.6%
Tsogo Sun	2.3%
Telkom	2.2%

Sector Split



Equity Allocation



new purchase Anglo American. This share also makes it into the top 10 holdings of the Fund. We are concerned about the state of some of the markets in which Anglo American does business (notably the iron ore market, where we believe profitability is currently far higher than normal, sustainable levels). But when we apply realistic long-term commodity prices and profit margins to each line of business, we derive earnings levels for the group that supports an intrinsic value well above the current share price. And incidentally, the stock is trading at price to book levels slightly above the lows reached in the early and late 1990s, and in the 2008 or 2009 market crash.

11

Besides Anglo American, existing holdings Anglo Platinum and Lonmin feature as notable purchases, as does ArcelorMittal. ArcelorMittal is well known as the dominant steel business in South Africa. The company faces many short-term challenges (like a local construction and manufacturing sector that is very weak currently), but we consider it to be an above average steel business and we believe that the long-term economics of the business is intact. Being an above average steel business unfortunately does not count for much, because the average steel business is a terrible business. Incidentally, fears about the slowdown in China and the potential impact thereof on the global steel market has driven the global share prices of most steel businesses to levels that look very interesting from a long-term value investor's perspective. ArcelorMittal is currently a fairly modest investment in the Fund, on account of the fact that it does not qualify as a high quality business, and also because the stock's discount to fair value, while attractive, is not yet of such a magnitude to justify a larger position.

On the disposals front, we have sold a substantial number of Old Mutual shares after the material re-rating the stock experienced late in 2011. The stock has continued to deliver strong (but less dramatic) performance in the first half of 2012. This has given us the opportunity to sell shares to the extent that Old Mutual no longer features as a top 10 holding in the Fund (like it did six months ago).

Imperial Holdings and Omnia feature as the next largest disposals for the past six months. Both of these shares' prices have increased significantly over this period, which eliminated (for Imperial) and compressed (for Omnia) the margin of safety embedded in the share prices. We have therefore sold the last of the Fund's investment in Imperial, and have decreased the Fund's investment in Omnia substantially. As in the case of Old Mutual, this has resulted in Omnia no longer being a top 10 holding in the Fund.

Since we first bought Imperial shares for RE:CM clients during the course of 2008, this share has delivered phenomenal absolute and relative returns, outperforming the FTSE/JSE All Share Index by a very wide margin. This is one of the characteristics of the shares of cyclical businesses. When you buy them at the bottom of the cycle on low multiples of depressed earnings; and the cycle subsequently improves, there is a great deal of money to be made from owning such shares. Imperial has been a case in point, but it is also one of the industrial shares that has been caught up in the wave of momentum and positive sentiment referred to earlier. Its share price first reached, and then went on to handsomely exceed our estimate of fair value

during the past six months. This has resulted in us selling out of Imperial in full.

.....
Good Ideas That Worked
.....

Discovery

Imperial Holdings
.....

12

Along with the rest of the domestic financials sector, Discovery has delivered very strong investment returns over the past six months. RE:CM clients have owned shares in this first rate business for almost five years now, and the result has been very satisfactory. Unfortunately, given the strong share price performance, the margin of safety in the stock price has contracted materially, and we have therefore been reducing the Fund's exposure to Discovery.

As mentioned above, Imperial's share price has increased over the past six months, and the Fund benefitted from that to an extent. As often happens, the share price proceeded on its upward path with barely a pause after we sold the Fund's investment in the stock. If there was a reliable and safe way of capturing these kind of returns that are beyond a share's fair value, we would implement this, but we have not yet found this.

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Good Ideas At The Time
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Telkom

Harmony Gold

Platinum Miners
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Telkom and the platinum miners featured as 'Good Ideas At The Time' in the last Fund Commentary as well, and it is disappointing to see them here again. While nothing fundamental has changed in our view of the platinum miners, we have been forced to make further reassessments of the Telkom investment case over the past six months. One disappointment has been the developments around

the proposed KT deal, and the implications that this holds for the business. Another concern has been the amount of capital expenditure being incurred on the mobile business. We are doubtful that the company will earn economic returns on the amount of expenditure that they are currently incurring. While Telkom is still a top 10 holding, we have sold some shares after we revised our investment case and our best estimates of fair value.

Following a very strong showing during 2011, Harmony Gold delivered very poor returns in the first six months of this year despite a rand gold price that has been very steady over this time. As mentioned in the Fund Commentary six months ago, we reduced the Fund's investment in Harmony during the latter part of 2011 after the strong run in the share price. This turned out to be quite fortunate, but as always when one views such actions with the benefit of hindsight, we should have been more aggressive at the time!

Return Expectations

The Fund's equities are currently trading at about 77% of fair value. This reflects a combination of some very attractively priced resources, hospitality and gaming investments, and some less attractively priced domestic industrial and financial investments. Seen as a whole, a portfolio priced at 77% of fair value is not something that we are wildly excited about yet. We are however encouraged that we are generally finding more new investment ideas than has been the case for the past two years or so.

Wilhelm Hertzog
Portfolio Manager

RE:CM Australia Equity Fund*

The aim of the RE:CM Australia Equity Fund is to outperform the S&P/ASX 300 Accumulation Index over the long term, with lower than average risk of capital loss and less volatility than the Index.

*This Fund is not FSB approved and therefore not available for distribution in South Africa.

13

Fund Details

Fund Size	A\$1.5mn
Benchmark	ASX300 Accumulation Index
Performance Fee	20% above/below ASX 300 Accumulation Index
Annual Fee	0.8% annual fee excl GST

Portfolio Diagnostics

	Fund	ASX 300 Index
P/E Ratio	15.9	13.2
Dividend Yield	4.0%	4.9%
Volatility	9.3%	12.6%
% Maximum Drawdown**	-10.2%	-15.4%
% Positive Months	42.0%	50.0%
% Turnover Rate***	36.0%	n/a
Number of Holdings	23	295
Concentration of Top 10 Holdings	47.1%	52.6%

**Life of Fund

***Trailing 12 months

Investment Results

From January to June 2012 the Fund returned 6.8% versus the benchmark's 0.5%. While it is an excellent result, it is partly due to the Fund being heavily underweight resource stocks, which underperformed during this period. The balance is due to strong absolute returns from several of our largest positions, including Sonic Healthcare, Perpetual, Macquarie Group, Aristocrat Leisure, Echo Entertainment and News Corporation. Notable detractors include APN News & Media and Oceania Capital Partners.

Management Actions

The table lists the five largest capital commitments and realisations during the period under review.

Capital Allocations	Capital Realisations
Oceania Capital Partners	News Corporation
Metcash	Telstra
Newcrest Mining	Cabcharge
Tabcorp	Australian Vintage
Echo Entertainment	Echo Entertainment

Our largest commitment during the period was a new position in the listed investment company Oceania Capital Partners. This purchase was made at a significant discount to the fair value of the underlying assets and with no value placed on the investment skill of the company's new controlling shareholder. We have long admired the significant value creation achieved by the management of Hosken Consolidated Investments in South Africa, and we are pleased to have partnered alongside them in their Australian investment vehicle.

Metcash is Australia's largest food and liquor wholesaler and it has grown significantly in the Australian food retail industry through its astute management. Metcash harnesses its significant buying power and distribution to provide independent retailers with the means to compete effectively with the food retailing duopoly Woolworths and Coles. While this is a quality business, much like Woolworths, its earnings are very high following a decade of market consolidation and efficiency gains kept mainly for shareholders. We first purchased Metcash last year with the clear intention of increasing our position to maximum weight, only at a wider margin of safety.

We recently initiated a position in Newcrest Mining, a gold producer undergoing a significant expansion in production. Since our initial analysis, we waited for an appropriate entry for nearly two years,

during which time the share has been decidedly expensive. However, production disappointments have contributed to the share price declining to attractive levels. The market is placing no value on Newcrest’s growth projects or its valuable untapped reserves in Papua New Guinea.

We increased our exposure to gaming companies Tabcorp and Echo Entertainment. This was warranted by our process that scales positions higher as risk decreases. In this case, popularity or the price/earnings (P/E) ratio relative to the market declined to a level justifying maximum weight. Echo Entertainment also appears as a sale. Again, this action was in line with our process, as our popularity measure increased significantly in the wake of burgeoning takeover interest.

News Corporation reached fair value late in the period under review and we liquidated our holding. The share has risen considerably, together with:

- limited fallout from last year’s phone hacking scandal (when we substantially increased our position);
- an aggressive share buyback using cash previously earmarked for a tilt at BSKyB; and
- the company’s intention to spin off its publishing and Australian payTV assets into a separate listing.

We cannot yet see how this transaction creates additional value but we remain interested in the stock and will follow future events as they unfold.

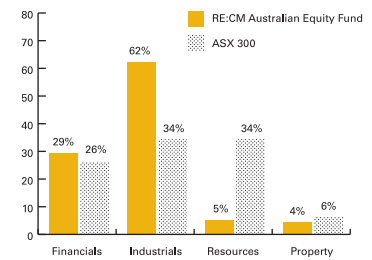
Similarly, Telstra shares have risen steadily thanks to increasing investor appetite for its generous, fully -franked dividend yield. To the yield-hungry investor, this steady appreciation supports the belief that the yield is sustainable. Why else would there be net buyers of the stock? We believe the stock is no longer cheap enough to own and we completed our exit into this strength. Should the rollout of the National Broadband Network and the agreed compensation to Telstra for the loss of its high margin copper network go ahead as planned, Telstra’s sustainable free cash flow will nonetheless fall below its current dividend funding ability.

Cabcharge remains perhaps the most interesting business in the Fund. The swings in the share price over the past two years provides evidence that Cabcharge has clearly generated polarising views in the market. Cabcharge serves as an intermediary that enables taxi patrons to remunerate cab drivers with cards, hence providing a service to both. In return, Cabcharge places a levy (as a fixed percentage of cab fares) on the fares patrons have to pay. While cab fares are regulated and increase with inflation, unregulated pricing of the levies in a regulated market is a highly desirable attribute and has allowed Cabcharge’s taxi payments network to generate excellent returns on capital over time. Where it gets interesting is the constant perceived threat of either regulation by payments authorities or deregulation by transport authorities. It is this environment that gives Cabcharge its moat, and it will probably be a long lasting moat. The share recovered substantially during the period and we reduced our exposure proportionately with a narrower margin of safety.

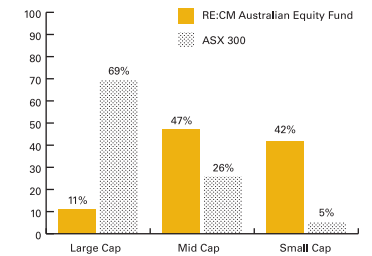
Top 10 Positions (%)

Sonic Healthcare	7.2%
Perpetual Trustees Australia	5.6%
Metcash	5.0%
Tabcorp Holdings	4.6%
Macquarie Group	4.6%
Aristocrat Leisure	4.5%
Harvey Norman Holdings	4.5%
Oceania Capital Partners	4.0%
Echo Entertainment Group	3.6%
National Australia Bank	3.5%

Sector Split



Equity Allocation



We had grown increasingly uncomfortable with Australian Vintage's balance sheet. Although on the surface it appears very cheap, we believe that this company protects the interests of National Australia Bank – namely its high-yielding secured loan. Should the bank's risk appetite change, it could potentially step in and liquidate Australian Vintage assets in a fire sale. In the current market this would leave very little for shareholders. We exited our position in favour of opportunities with more attractive odds.

Good Ideas That Worked

Sonic Healthcare

News Corporation

Sonic Healthcare

Our largest holding returned a solid 15% during this period despite overall market volatility. Pathology laboratories incur high fixed costs and require high volumes to make business sense. Smaller players become uneconomical and are eventually forced out of the market. Sonic is a world-class operator and continues to strengthen its position in Australia. They recently acquired the underperforming laboratory assets from competitor Healthscope. Sonic has achieved critical mass in Western Europe and the US, having established itself as a consolidating force in two fragmented markets for pathology services. Management have deliberately slowed the pace of foreign acquisitions so that their benefits can materialise in such metrics as return on capital and earnings per share growth.

News Corporation

We have only recently completed our ownership cycle in News Corporation and it appears to have been a success. We increased our position at a time of irrational market fear and exited at approximately our estimate of intrinsic value. It should be noted that it is both unusual and undesirable for this cycle to be completed within twelve months. Selling News Corporation leaves us holding cash when we would prefer a cheap, high quality business.

Good Ideas At The Time

Impedimed

Oceania Capital Partners

Impedimed

Impedimed was purchased last year, but it's not one of the five largest capital commitments. It

however performed poorly during the period under review. Impedimed is an early stage medical device manufacturer with a single first-to-market product on offer – a device that aids in the diagnosis of preclinical lymphedema. Lymphedema is a debilitating disease affecting some survivors of breast cancer treatment. The device is approved by the US Food and Drug Administration and was cleared for reimbursement by Medicare. Management will carry on convincing private health insurers to provide coverage to their members. They are however reluctant to do this unless several important milestones are reached, the key one being using clinical data to demonstrate that the device works. We have high conviction in the technology and the steps necessary to make the business economics stack up are being addressed. We will continue to monitor management's performance in this regard.

Oceania Capital Partners (OCP)

We purchased our shares at a time of upheaval in OCP's share register. Several hedge funds had bought the stock in anticipation of an optional capital return and share buyback that would leave Hosken Consolidated Investments (HCI) in control of the company. The hedge funds were successful in extracting a higher price for their shares. However, they and others (collectively short-term shareholders) were left with a residual holding. Since HCI were to own 70% of the shares following the transaction, it was clear that future liquidity in the share would be low. In the short term, the only liquidity would be sales by those who had tendered their shares but who still held residual balances. We bought into this residual selling but unsurprisingly it continued to push the share price lower, where we have remained buyers.

Investment Return Expectations

Our expectation for future returns depends on two factors: the quality of our holdings and how cheap they are. According to our definition, quality companies are protected from competitive forces by durable barriers to entry. The prospective returns realised by their shareholders are sufficiently attractive even if their stock is owned at fair value. The benefits of owning such stocks at a discount are two-fold:

1. It offers additional upside through the market's pull to fair value, as company fundamentals are gradually reflected in the share price.

2. It gives us confidence that unforeseen events will not materially detract from our returns.

By insisting on a margin of safety, we allow for a possible deterioration in intrinsic value, while still being able to achieve sufficiently attractive returns.

This thinking informs our process. Of our invested position, 70% comprises ownership in quality businesses and the Fund as a whole is priced at 80c in the dollar, a 20% discount to fair value. We

therefore expect decent returns from the Fund. As mentioned before, 20% is pleasing, but 30% would be exciting. And so our efforts to uncover cheap, quality ideas in Australia continue.

Chris Boehmke, Piet Viljoen and Daniel Malan
Portfolio Managers

RE:CM Global Fund

The RE:CM Global Fund's aim is to outperform the US\$ MSCI World Index (including income) over the long-term with lower than average risk of capital loss and with less volatility than the index.

Fund Details

Fund Size	US\$332m
Benchmark	MSCI World
Performance Fee	20% above/below MSCI World +2.5%
Annual Fee	0.5% annual fee

Portfolio Diagnostics

	Fund	MSCI World
P/E Ratio	17.0	12.3
Dividend Yield	1.4%	3.0%
Volatility	12.6%	19.1%
% Maximum Drawdown*	-33.3%	-53.7%
% Positive Months	58.7%	53.3%
% Turnover Rate **	24.6%	n/a
Number of Holdings	86	14,040
Concentration of Top 10 Holdings	41.9%	8.0%

*Life of Fund

** Trailing 12 months

Investment Results

The RE:CM Global Fund has returned 5.3% p.a. (in US dollars) since inception, after fees. Over the same period the MSCI World Index, including dividends, has returned 1.5% p.a. Shorter-term returns have also been highly satisfactory. Over 12 months, the Fund has returned 0.9%, while the MSCI World Index declined by 4.4%. Over time, the Fund has grown capital in real terms, while outperforming its benchmark and peer group substantially. Our belief that one's investment success is determined by your investment philosophy and process, not your physical location, has been vindicated.

RE:CM's investment philosophy is one of capital preservation first, and growth second. We believe that our main job is to preserve our clients' capital and let the growth look after itself. We have been doing this in various markets for many years now and it is a strategy that works. Not all of the time or every time, but over long periods of time it delivers strong returns, well in excess of inflation.

How do we do this? Very simply by only buying assets which are cheap, ignoring daily news flow (and the associated emotional highs and lows) and maintaining significant cash buffers when assets are expensive. We are often criticized for our high holdings of cash. But we believe cash is the best hedge against risk. Many investors confuse a fully invested fund with good due diligence and high activity (in other words, fund turnover) with proper risk management. Many times, the opposite is true. Funds are fully invested due to mandate or consultant pressure, not because of thorough research. And high activity tends to indicate low levels of conviction and susceptibility to the whims of the market. We prefer to keep our approach simple: low cost and rational. Our investment returns prove that this is a good way to do things.

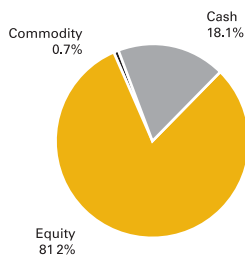
Management Actions

New positions were initiated in the following stocks: Ultra Petroleum (a US based producer of natural gas), NTT Docomo (the dominant Japanese mobile and fixed line network operator), Lonmin (one of the three biggest global platinum miners, based in the UK with operations in South Africa) and Anglo American (a UK based resource extractor, with operations globally). In addition, we also invested in the Ichiruzuka Fund, a Japanese hedge fund managed by Milestone Asset Management. The Ichiruzuka Fund gives the RE:CM Global Fund access to small and medium sized Japanese's companies, a class of stock that we regard as being extremely cheap. Due to severe language barriers in this sector of the market, we feel we cannot do proper investment research ourselves. Fortunately, Milestone shares RE:CM's investment philosophy and applies a similar investment process.

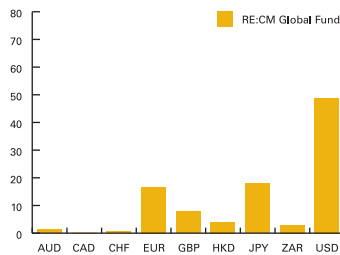
Top 10 Positions (%)

Ichirizuka Master Fund	5.9%
Carrefour	5.5%
Berkshire Hathaway	4.8%
Johnson & Johnson	4.5%
Microsoft	4.2%
BP	4.1%
Coca-Cola Hellenic	4.0%
Wellpoint	3.1%
Dell	3.1%
FamilyMart	2.9%

Asset Allocation



Currency Exposure



Due to continued strong inflows into the Fund, coupled with price weakness, the Fund has also increased its holdings of some companies. In Europe, where we have done much of our buying, we have added to our holdings of Carrefour, Coca-Cola Hellenic, Total, Hellenic Exchanges and Titan Cement. In the UK we have added to our holding of BP, while we added to our holdings of Teva Pharmaceutical and Berkshire Hathaway in the USA. We have also added two large South African companies, Amplats and Sun International as well as two smaller South African companies.

By and large, the Fund continues to rotate into more ‘cyclical’ companies such as platinum miners, European retailers and energy companies. We are of the opinion the market is increasingly overpaying for the apparent safety of stable companies. In so doing, these companies are becoming less safe investments, as their prices exceed their fair values, sometimes by a wide margin.

The Fund continues to reduce its exposure to the US\$, although it remains the dominant currency exposure. Europe and Japan are becoming larger currency exposures, as the Fund increases its exposure to the cheap merchandise on offer in these markets. It is worth pointing out that the RE:CM Global Fund does not hedge against currencies. Its currency exposure depends directly on the jurisdiction in which its investee companies are listed. This does not mean we have no view on the respective value of currencies; we just think that it is the company management’s responsibility to allocate capital to the best jurisdictions. We would not want to second guess their process. One should thus be very careful not to take the currency exposure of the Fund at face value. For example, Titan Cement operates in many countries in Africa and Europe, but is denominated in euros because it is listed in Athens. When evaluating the investment prospects of any business, we take its underlying operating exposure to different currencies into account; not the currency it happens to account in for these activities.

Of course, any cash we have not allocated to equity investments in the Fund is held in the currency which we would regard as cheapest at that particular point. Three years ago all our cash was held in Japanese yen; today we hold US dollars.

The Fund completely sold out of Home Depot and Visa. In the USA, holdings in Intel, Dell, Harmony ADR, Zimmer, Johnson & Johnson, Dish, WellPoint, Wells Fargo, Wal-Mart, and Amgen were reduced, as their prices increased towards fair value. For the same reason, the Fund reduced its holdings of Old Mutual and Vodafone in the UK as well as its holdings of FamilyMart and Tokyo Gas in Japan. All of these remain good businesses, just not good investments (yet).

Good Ideas That Worked

- Aristocrat Leisure
- Titan Cement
- Microsoft

The investment thesis behind each of these companies is in the process of unfolding as we had hoped at the time of acquiring the position. For Aristocrat, it seems their product cycle is recovering.

Their product had become stale and they were having trouble coming up with new machines for the gaming market. At the same time, the global gaming market has been going through a bit of a slump. These two factors together caused a severe decline in the share price of Aristocrat. Our thesis is that the problems were either temporary or cyclical in nature. The market seems to be starting to agree with our view now, after having been convinced the problems were structural. The jury is still out but either view might still prove to be right. We just think we are being paid well (via a share price that is below intrinsic value) for taking this risk. Titan has recovered some of its losses since we initiated a position in the company but we think it still has far to go. Microsoft is an example of a large, quality multinational which the market is pricing as if it will never grow again. We don't care if it doesn't because at the current share price, returns will be more than satisfactory. And if it does manage to grow, then returns will be exciting. This is the type of position we like – heads we win, tails we win even more.

Good Ideas At The Time

Dell

Harmony

Carrefour

Dell reported poor PC sales, and guided for continued weakness. This caused the share price to slump. We should point out that that the Fund does not own Dell for its PC business, which we have always expected will continue to decline as

tablets and smart phones take market share. Our investment thesis revolves around the fact that Dell is using its massive cash flows to transform into a software and services business, which is not being recognized by the market. At the same time it is reducing its share count substantially through buybacks.

We have written about Harmony many times before. We regard it as one part of our insurance program – the other parts being the Funds' holding of cash and physical gold. We continue to hold Harmony in the hope that the insurance policy doesn't pay off because our many other equity holdings should then do well! Thus, paradoxically, this is one holding of the Fund that we hope stays in the 'good ideas at the time' column.

Carrefour has two strikes against it. It is listed in France and it operates many hypermarket format stores. The market share of such stores is being eroded by neighbourhood stores on the one hand, and the very low price category killers (like Lidl) on the other hand. Our investment thesis is that these troubles are more than adequately reflected in the share price, which is well below what we calculate intrinsic value to be. So far, our investment thesis has proved to be incorrect but we think we will be proved right over the next few years, and, as such, we have increased our holding in this company. As a result, it is now the Fund's second largest holding.

Piet Viljoen
Portfolio Manager

19

RE:CM Global Feeder Fund

The RE:CM Global Feeder Fund will invest in our RE:CM Global Fund, a Global Asset Allocation portfolio with specific focus on generating long-term real capital growth at below average levels of risk. There is no initial fee. The annual management fee is 0.3% excl. VAT. For further information please refer to the factsheet available on our website. www.recm.co.za