

Melville Douglas Dynamic Strategy Fund

As at 31 December 2010

Investment Policy and Objectives

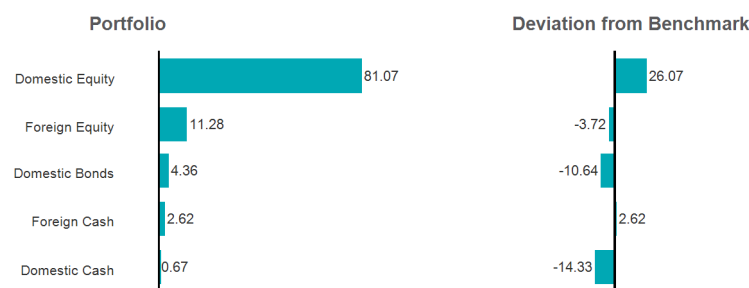
The portfolio's main objective is to achieve high growth of capital and income, a reasonable level of current income and relative stability for capital invested. The portfolio comprises a mix of financially sound securities of companies listed on exchanges and non-equity securities. The Portfolio will from time to time be invested in securities to the maximum permitted by the Act, or will be invested in non-equity securities to the maximum permitted by the Act, or any combination of the above. This portfolio may also include participatory interests of other collective investment schemes. The portfolio may have a maximum of 20% direct and/or indirect foreign exposure.

Performance (%)

| | 1 year | 3 years | 5 years |
|----------------|--------|---------|---------|
| Class A | 16.19 | 3.74 | 11.31 |
| Sector | 13.79 | 4.80 | 11.00 |
| Benchmark | 13.93 | 6.11 | 11.85 |
| Rank (Class A) | 20/54 | 30/46 | 12/30 |

Figures quoted are from Morningstar for the period ending 31 December 2010 for a lump sum, using NAV-NAV prices and do not take any upfront managers charge into account. Income distributions are declared on the ex-dividend date. Actual investment performance will differ based on the upfront managers charge applicable, the actual investment date and the date of reinvestment of income.

Asset Allocation (%)



Portfolio Facts

| | |
|------------------------------|--|
| Portfolio Size | R 91.77 million |
| Sector Classification | Domestic Asset Allocation Flexible |
| Income Distribution | Net revenue is declared on a daily basis and distributed bi-annually. |
| Income Declaration | 30 June & 31 December |
| Benchmark | FTSE/JSE All Share Index 55%; BEASSA All Bond Index 15%; MSCI World Index 15%; STeFI Call Deposit Rate Index 15% |

| | Class A |
|------------------------------|-------------|
| Launch Date | 01 Jun 2002 |
| Minimum Investment | |
| Lump Sum | R100,000 |
| Debit Order Per Month | R1,000 |
| ISIN No. | N/A |
| JSE Code | MDDS |
| Total Expense Ratio * | 1.65% |

| Maximum Portfolio Charges ** | |
|-------------------------------------|-------|
| Total Upfront Charge | 2.85% |
| Upfront Charge Intermediary Portion | 0.00% |
| Total Service Charge | 1.43% |
| Service Charge Intermediary Portion | 0.00% |

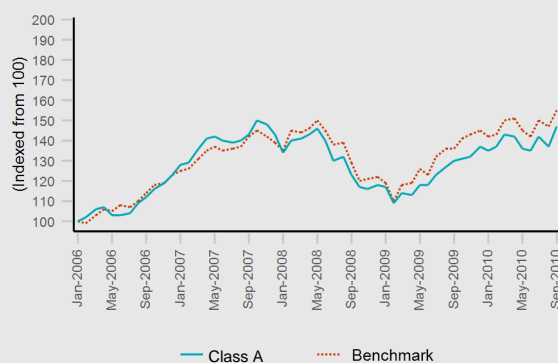
* Please refer to page 2 under "Statutory Disclosure and General Terms & Conditions"
 ** Additional Information can be obtained from Portfolio Charges Brochure on www.stanlib.com

Highlights ***

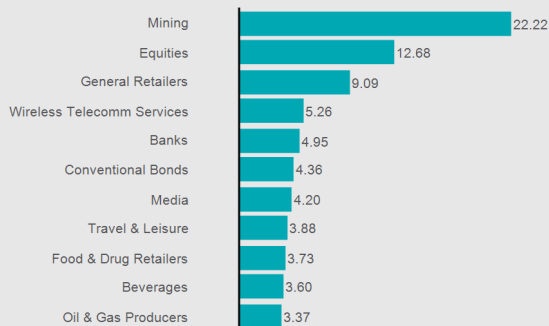
• 3-star Morningstar rating.

Morningstar

Cumulative Performance - Last 5 years



Sector (%)



Income Distribution

| | Paid in the last 12 months | Paid during 2009 | 2009 payments as a % of year end price |
|---------|----------------------------|------------------|--|
| Class A | 4.22 cpu | 6.56 cpu | 2.75 % |

Top Holdings (%)

| | |
|--------------------------------------|------|
| BHP Billiton Plc | 9.55 |
| Orbis Global Equity Fund | 8.34 |
| Anglo American Plc | 5.65 |
| MTN Group Limited | 5.26 |
| Exxaro Resources Limited | 4.48 |
| NBK5B NED FRN JIBAR+148BP 19/04/2013 | 4.36 |
| British American Tobacco Plc | 4.34 |
| Naspers Ltd | 4.20 |
| Compagnie Fin Richemont | 3.83 |
| Spar | 3.73 |

Risk Rating

| | | |
|--------------|----------|-------------------|
| Conservative | Moderate | Aggressive |
|--------------|----------|-------------------|

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Franchise

The fund is prudently managed, with a flexible approach to asset allocation to reflect the balance of risks in investment markets and the economic environment at any given time. The core of the portfolio is its equity holdings, and careful selection of the companies the fund holds offers another significant opportunity to control the risk in the portfolio. Melville Douglas's approach to equity investment is rigorously based on an assessment of the industry growth prospects for each holding, and for the ability of the individual company to improve its industry position by skilful management and strategic positioning. The key characteristics of companies we prefer are the ability to convert revenue into cash on a reliable and sustainable basis; the ability of management to deploy that cash either in expansion or new projects that will achieve a return above the cost of capital; and a track record that demonstrates a willingness to return surplus cash and capital to shareholders. The investment process for non-equity asset classes is similar, with the understanding that the more non-equity assets the portfolio retains the less the likelihood of achieving a reasonable real return over time. We are also strongly focused on the price we pay: we believe strongly that the cost of purchase determines the return that can be achieved. Our focus is always long term and turnover in the portfolio is typically low.

Fund Features

A well-managed balanced portfolio, with the objective of delivering strong risk adjusted returns over time.

Risk

The risk in the fund is controlled by its tactical asset allocation and the quality of its equity holdings. The equity selections and weightings are based on the conviction that it is not necessary to accept all of the volatility risk inherent in the market, and that prudent selection and diversification can achieve superior results over time.

This does not isolate the portfolio entirely from market risks such as:

- Interest rate fluctuations which affect the yields on cash and money market investments as well as the prices of bonds
- Adverse changes in global and domestic economic conditions
- Currency volatility and exchange rate risks

We strive to anticipate as many risks as possible by adjusting the portfolio's holdings to reflect the balance of those risks; but equally importantly the long term view must be that investment return is in part the reward for the risks that are taken, and some risk exposure is essential to achieve the fund's long term goals.

Statutory Disclosure and General terms & Conditions

Collective investment schemes in securities are generally medium to long term investments. The value of participatory interests may go down as well as up and past performance is not necessarily a guide to the future. An investment in the participations of a collective investment scheme in securities is not the same as a deposit with a banking institution. Participatory interest prices are calculated on a net asset value basis, which is the total value of all assets in the Portfolio including any income accrual and less any permissible deductions from the Portfolio divided by the number of participatory interests in issue. Permissible deductions include brokerage, STT, auditor's fees, bank charges, trustee/custodian fees and the service charge levied by STANLIB Collective Investments Limited ("the Manager"). Where exit fees are applicable, participatory interests are redeemed at the net asset value where after the exit fee is deducted and the balance is paid to the investor. A Portfolio of a collective investment scheme in securities may borrow up to 10% of the market value of the Portfolio to bridge insufficient liquidity as a result of the redemption of participatory interests, and may also engage in scrip lending. A schedule of fees and charges and maximum commissions is available on request from the Manager. Commission and incentives may be paid and if so, would be included in the overall costs. The Manager reserves the right to close certain Portfolios from time to time in order to manage them more efficiently. More details are available from the Manager. Forward pricing is used. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. The Manager undertakes to repurchase participatory interests at the price calculated according to the requirements of the Collective Investment Schemes Control Act, 2002, and on the terms and conditions of the relevant Deeds. Payment will be made within 14 days of receipt of a valid repurchase form. Any capital gain realised on the disposal of a participatory interest in a collective investment scheme is subject to Capital Gains Tax (CGT). The Manager is obliged to report on the weighted average cost method for CGT purposes. The Manager is a member of the Association for Savings & Investment of South Africa (ASISA). The Manager carries full responsibility for this third party portfolio. All portfolios are valued on a daily basis at 15h30, except for some Fund of Funds and Feeder Funds which are valued at 17h00. Investments and repurchases will receive the price of the same day if received prior to 15h30.

*** Highlights

Morningstar group rating is based on the risk-adjusted performance of all portfolios under management over a three year period ended 31 July 2010. Only companies with at least five portfolios under management are considered. The Total Expense Ratio (TER) for this class or portfolio is indicated above. For the period from 01 Oct 2009 to 30 Sep 2010 each TER is the annualised percent of the average Net Asset Value of the portfolio incurred as charges, levies and fees. A higher TER ratio does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER cannot be regarded as an indication of future TERs.

Trustees : ABSA Bank Ltd, 6th Floor, Absa Towers North (6E1), 180 Commissioner Street, Johannesburg, 2001, 2001, Tel: 011 350 4000

Portfolio Manager

Jerome O'Regan

Jerome is Melville Douglas's Chief Investment Officer and has been involved in investment markets since 1984. Among other positions he has held are head of research at Fleming Martin and Stanlib, and chief investment officer at SCMB Asset Management. He holds an MBA from UCT and is a Chartered Financial Analyst.

Grant Morris

Grant Morris has been involved in research and portfolio management at Melville Douglas since 2002. Among other positions he has held are research analyst at Standard Bank (SCMB) leveraged buy-outs division, and business analyst at Accenture.

Quarterly Comments

The year finished with another strong quarter. The JSE all share index return was 9.5%, and so for the year the total return from the equity market was 19.0%. These returns were driven partly by local factors, but even more by global issues. Firstly, it became clear that global growth was becoming a less one-sided affair, and that the developed world was recovering in a way that looked increasingly sustainable. At the same time, some risk factors diminished – the risk of a return to recession, and the sovereign risks in Europe. In response to the better growth outlook, commodity prices rose substantially and this was reflected in domestic share prices: resource shares rose over 16% in the final quarter, whereas industrials rose only 8% and financials were flat. Resources rose in spite of a 5% strengthening of the rand against the US dollar.

The portfolio maintained its overweight equity position through the quarter, and the return from the portfolio's equity was 9.8%, better than the index in spite of a lower exposure to resources than the index. For the year as a whole, the portfolio's equity component was up 23.9%, almost four percentage points ahead of the index, and this was the major source of the fund's good performance in 2010. What we missed was the returns from bonds, because under circumstances of enormous monetary and fiscal stimulus, we did not expect yields to hold at the extremely low levels struck during the financial crisis. As a result, the portfolio was underweight and did not benefit from the strong performance of bonds.

The favourable policy backdrop for equity investors has more recently been helped by a rising level of confidence in developed world markets. The outlook for 2011 is underpinned by a much better level of growth, and more balanced growth, than had been expected. It is now possible that the world will return to trend growth, but until unemployment rates fall, policy is likely to remain quite stimulatory. However, rising inflation and concerns over asset pricing in some emerging markets are likely to produce more restrictive policies as 2011 unfolds. The switch into a phase of globally rising interest rates will be poorly synchronised as the impacts of higher growth and the interactions with other factors (employment and sovereign risk in Europe, for example) will keep the pace of change moderate. We thus expect reasonable returns from equity markets in 2011, but SA valuations are now more stretched. This, plus the fact that currencies could behave unpredictably as policymakers unwind some of the stimulus, means that volatility will remain a significant factor. A benign cyclical outcome could thus be accompanied by volatility, and diversification and careful selection remain our watchwords.

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