

# Annual Report 2016



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The past year has been a positive one for us as we saw many of our high conviction investment views beginning to pay off. Fund returns for the year have been encouraging and were particularly pleasing in the six months to June 2016, when strong performance from our equity holdings - together with very good asset allocation decisions - resulted in material outperformance across all our funds.

We have maintained our focus on making investment decisions based on high quality, deep bottom-up research. Our investment team has been further strengthened by top calibre appointments, boosting the core team that has now worked together for over 13 years. Our total staff complement grew to 52, of which 23 are investment professionals, as we build towards our vision of being the leading medium-sized asset manager in South Africa. We now manage over R42.5 billion across all our client portfolios.

### **Economic backdrop**

Local economic growth continues to be very weak this year. It is especially concerning that the weak rand seems to have had little beneficial impact on the production side of the economy. The service sector remains the powerhouse of the economy but is coming under increasing cyclical pressure, against a background of rapidly slowing consumer spending growth and a deteriorating credit cycle.

While a foreign currency downgrade has so far been averted, rating agencies have placed SA sovereign ratings on a negative outlook due to the country's tepid medium-term growth prospects and the lack of progress on growth-enabling reforms.

Globally, the US economy is strengthening but meaningful growth and a robust inflation trajectory remain elusive, causing rate hike expectations in the US to be pushed further out. Europe's economies are stagnating, despite huge central bank stimulus, and uncertainty has increased following the UK's decision to leave the EU.

Emerging market economies are also weaker but showing signs that the worst is behind them, with India strengthening and China slowly managing the recalibration of its economy to a more balanced growth path. Commodity prices remain particularly sensitive to the extent of the slowdown in Chinese fixed capital investment as that economy rebalances.

### **Markets**

Our view remains that asset prices are generally very elevated due to the developed economy central bank direct intervention in financial markets. In particular, developed market bond yields are at extremely low levels. This situation continues to cause yield-searching behaviour by foreign investors in the more defensive parts of the SA market. The resultant high prices discount extremely optimistic prospects, making them vulnerable to sentiment changes.

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A large decline in the rand, long bonds and banks accompanied the finance minister reshuffles in December 2015. By the end of June 2016, the drop in global bond yields (and to a lesser extent early signs of a slightly better SA political outlook), had caused these assets to almost fully recover, despite a worsening SA economic environment.

Severe commodity price weakness continued this year, culminating in multi-year lows in January 2016, as over-investment in new mines coincided with a sharp slowdown in Chinese infrastructure spend. There has since been a gradual recovery in commodity prices as Chinese imports stabilized and supply showed early signs of rationalization.

After offering value post the political events of December 2015, resurgent foreign appetite for local bonds has now compressed their yields back down to fair value. We currently see more attractive risk-adjusted yields in shorter-duration deposits.

### **Our views**

Our bottom-up valuation focus, with particular emphasis on probabilistic scenario analysis and consideration of the long term, enables us to benefit from market volatility and over-reactions that often accompany headline grabbing events. In this period, our funds benefited materially from tactical opportunities presented by the sharp sell off in the rand, bonds and banks in December 2015. Towards the end of the period, we have been adding attractively-priced UK property exposure, following the post-Brexit volatility.

Our meaningful positions in more defensive, cost efficient resource counters have added materially to performance in the six months to June 2016, after many years of disappointment. We prefer commodity exposure with favorable long-term demand dynamics that are less reliant on Chinese infrastructure spend and that have structural supply challenges (like platinum group metals).

As a medium-sized SA investment manager, we are able to own stakes in mid-cap companies that are material in size in our clients' portfolios. This is a key competitive advantage we offer clients relative to our larger competitors and our funds have significant exposure to compelling mid-cap opportunities, which we expect will perform strongly in the future.

We apply the same philosophy and discipline when selecting global stocks and offer exposure to a differentiated portfolio of attractively-priced companies. The positive contribution these investments have made to our domestic fund performance has given us the confidence to launch standalone global funds, scheduled for later this year.

We aim to exploit mispricings that we identify from careful fundamental research and long-term focused valuations. This approach does not assure outperformance at all times, but is very rewarding through time as our long-term track record shows. Since our inception 14 years ago, our equity funds have been ahead of the benchmark in all but three calendar years (2012, 2013 and 2014). Regarding our Equity Alpha Fund, we are the 5th best general equity fund since inception and the top manager 65% of the time.\*

### **Looking ahead**

We firmly believe that our clients' portfolios are positioned for continued strong outperformance in the short to medium term and look forward to an exciting and rewarding year ahead for Kagiso Asset Management clients.



**Gavin Wood**

Kagiso Collective Investments Chairman & Kagiso Asset Management Chief Investment Officer

\*Source: Morningstar, Kagiso Equity Alpha Fund, inception: 26 April 2004

# Trustee report

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We, the Standard Bank of South Africa Limited, in our capacity as Trustee of the Kagiso Collective Investment Scheme (“the Scheme”) have prepared a report in terms of Section 70(1)(f) of the Collective Investment Schemes Control Act, 45 of 2002, as amended (“the Act”), for the financial year ended 30 June 2016.

In support of our report, we have adopted certain processes and procedures that allow us to form a reasonable conclusion on whether the Manager has administered the Scheme in accordance with the Act and the Scheme Deed.

As Trustees of the Scheme we are also obliged to, in terms of Section 70(3) of the Act, to satisfy ourselves that every statement of comprehensive income, statement of financial position or other return prepared by the Manager of the Scheme as required by Section 90 of the Act fairly represents the assets and liabilities, as well as the income and distribution of income, of every portfolio of the Scheme.

The Manager is responsible for maintaining the accounting records and preparing the annual financial statements of the Scheme in conformity with generally accepted accounting practice. This responsibility also includes appointing an external auditor to the Scheme to ensure that the financial statements are properly drawn up so as to fairly

represent the financial position of every portfolio of its collective investment scheme are in accordance with generally accepted accounting practice and in the manner required by the Act.

Our enquiry into the administration of the Scheme by the Manager does not cover a review of the annual financial statements and hence we do not provide an opinion thereon.

Based on our records, internal processes and procedures, we report that nothing has come to our attention that causes us to believe that the accompanying financial statements do not fairly represent the assets and liabilities, as well as the income and distribution of income, of every portfolio of the Scheme administered by the Manager.

We confirm that, according to the records available to us, no losses were suffered in the portfolios and no investor was prejudiced as a result thereof.

We conclude our report by stating that we reasonably believe that the Manager has administered the Scheme in accordance with:

- (i) the limitations imposed on the investment and borrowing powers of the manager by this Act;
- (ii) and the provisions of this Act and the deed.



Melinda Mostert  
Standard Bank of South Africa Limited



Seggie Moodley  
Standard Bank of South Africa Limited

20 September 2016

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# Unit trust performance

Performance to 30 June 2016												
	1 year		3 years <sup>1</sup>		5 years <sup>1</sup>		10 years <sup>1</sup>		Since launch <sup>1</sup>	Launch date	TER <sup>2</sup>	TC <sup>3</sup>
<b>Unit trust funds<sup>4</sup></b>												
<b>Equity Alpha Fund</b>	2.1%		10.2%		10.8%		12.8%		18.5%	Apr-04	1.51%	0.39%
SA Equity General funds mean	1.4%		11.2%		11.8%		11.0%		15.2%			
Outperformance	0.7%		-1.0%		-1.0%		1.8%		3.3%			
<b>Balanced Fund</b>	5.2%		9.2%		10.5%		-		9.9%	May-11	1.56%	0.42%
SA Multi Asset High Equity funds mean	5.3%		10.5%		11.4%		-		10.9%			
Outperformance	-0.1%		-1.3%		-0.9%		-		-1.0%			
<b>Protector Fund</b>	2.1%		7.2%		6.5%		7.5%		10.1%	Dec-02	1.94%	0.37%
CPI + 5%	11.3%		10.8%		10.7%		11.3%		10.8%			
Outperformance	-9.2%		-3.6%		-4.2%		-3.8%		-0.7%			
<b>Stable Fund</b>	6.8%		8.7%		9.3%		-		8.5%	May-11	1.58%	0.54%
Return on large deposits <sup>5</sup>	6.0%		5.5%		5.4%		-		5.4%			
Outperformance	0.8%		3.2%		3.9%		-		3.1%			
<b>Top 40 Tracker Fund</b>	1.3%		11.6%		12.3%		11.1%		13.1%	Aug-97	0.71%	0.05%
FTSE/JSE Top 40 Index	2.6%		12.8%		13.3%		12.0%		14.3%			
Outperformance	-1.3%		-1.2%		-1.0%		-0.9%		-1.2%			
<b>Sharia unit trust funds<sup>4</sup></b>												
<b>Islamic Equity Fund</b>	4.5%		8.3%		8.2%		-		12.1%	Jul-09	1.33%	0.25%
SA Equity General funds mean	1.4%		11.2%		11.8%		-		14.1%			
Outperformance	3.1%		-2.9%		-3.6%		-		-2.0%			
<b>Islamic Balanced Fund</b>	4.7%		8.2%		7.6%		-		7.0%	May-11	1.49%	0.14%
SA Multi Asset High Equity funds mean	5.3%		10.5%		11.4%		-		10.9%			
Outperformance	-0.6%		-2.3%		-3.8%		-		-3.9%			
<b>Highest and lowest monthly fund performance</b>												
	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest	Highest	Lowest
Equity Alpha Fund	8.2%	-4.7%	8.2%	-4.7%	8.2%	-4.7%	10.9%	-9.0%	11.9%	-9.0%		
Balanced Fund	5.5%	-4.2%	5.5%	-4.2%	6.2%	-4.2%	-	-	6.2%	-4.2%		
Protector Fund	3.4%	-4.2%	3.4%	-4.2%	4.8%	-4.2%	7.9%	-5.3%	9.5%	-5.3%		
Stable Fund	3.8%	-3.5%	3.8%	-3.5%	4.0%	-3.5%	-	-	4.0%	-3.5%		
Top 40 Tracker Fund	7.8%	-4.3%	7.8%	-4.3%	10.3%	-6.8%	12.4%	-14.2%	14.4%	-27.8%		
Islamic Equity Fund	7.3%	-4.6%	7.3%	-4.6%	8.1%	-4.9%	-	-	8.1%	-4.9%		
Islamic Balanced Fund	4.6%	-3.0%	4.6%	-3.0%	8.2%	-5.4%	-	-	8.2%	-5.4%		

<sup>1</sup> Annualised (ie the average annual return over the given time period); <sup>2</sup> TER (total expense ratio) = % of average NAV of portfolio incurred as charges, levies and fees in the management of the portfolio for the rolling three-year period to 30 June 2016; <sup>3</sup> Transaction costs (TC) are unavoidable costs incurred in administering the financial products offered by Kagiso Collective Investments and impact financial product returns. They should not be considered in isolation as returns may be impacted by many other factors over time, including market returns, the type of financial product, the investment decisions of the investment manager and the TER. This is also calculated on the rolling three-year period to 30 June 2016; <sup>4</sup> Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; <sup>5</sup> Return on deposits of R5 million plus 2% (on an after-tax basis of an assumed 25% tax rate.)

**Disclaimer:** The Kagiso unit trust fund range is offered by Kagiso Collective Investments Limited (RF) (Kagiso), registration number 2010/009289/06. Kagiso is a registered management company in terms of the Collective Investment Schemes Control Act, No 45 of 2002 and is a subsidiary of Kagiso Asset Management (Pty) Limited [a licensed financial services provider (FSP No. 784)]. Kagiso Asset Management is the investment manager of the unit trust funds and a member of the Association for Savings and Investment SA (ASISA). Unit trusts are generally medium to long-term investments. The value of units will fluctuate and past performance should not be used as a guide for future performance. Kagiso does not provide any guarantee either with respect to the capital or the return of the portfolio(s). Foreign securities may be included in the portfolio(s) and may result in potential constraints on liquidity and the repatriation of funds. In addition, macroeconomic, political, foreign exchange, tax and settlement risks may apply. However, our robust investment process takes these factors into account. Unit trusts are traded at ruling prices and can engage in scrip lending and borrowing. Exchange rate movements, where applicable, may affect the value of underlying investments. Different classes of units may apply and are

subject to different fees and charges. A schedule of the maximum fees, charges and commissions is available upon request. Commission and incentives may be paid, and if so, would be included in the overall costs. All funds are valued and priced at 15:00 each business day and at 17:00 on the last business day of the month. Forward pricing is used. The deadline for receiving instructions is 14:00 each business day in order to ensure same day value. Prices are published daily on our website and in selected major newspapers. Performance is based on a lump sum investment into the relevant portfolio(s) and is measured using Net Asset Value (NAV) prices with income distributions reinvested. NAV refers to the value of the fund's assets less the value of its liabilities, divided by the number of units in issue. Figures are quoted after the deduction of all costs incurred within the fund. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Kagiso may close a portfolio to new investors in order to manage it more effectively in accordance with its mandate. Please refer to the relevant minimum disclosure doc/fund fact sheet for more information on the funds by visiting [www.kagisoam.com](http://www.kagisoam.com).

# Unit trust range

## Equity Alpha Fund

### Fund objective

To provide strong capital growth and a total portfolio return that is in the top quartile for general equity funds.

### Fund size (Rm)

304.7

### Fees (excl. VAT)

Initial fee	0.00%
Financial adviser fee (maximum)	3.00%
Ongoing advice fee (maximum)	1.00% pa
Management fee	1.25% pa

### Performance fee

10% of fund's outperformance of benchmark over rolling 12-month periods

### Total fee

(annual management fee plus performance fee) to be capped at 2% pa

### Risk profile



### Income distribution Class A

31 December 2015	3.65 cpu
30 June 2016	4.24 cpu

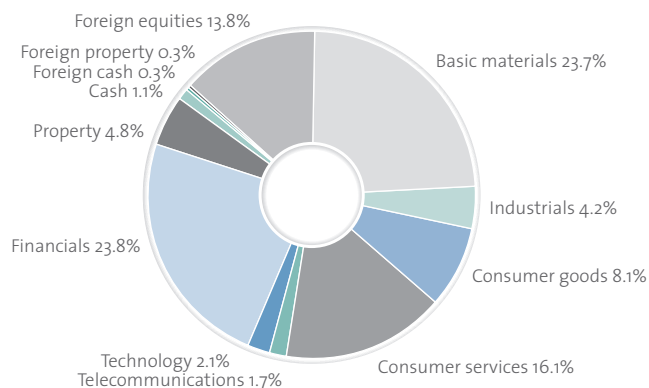
### Performance<sup>1</sup> (annualised)

One year to 30 June 2016	2.1%
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<sup>1</sup>Source: Morningstar

	Year ended 30 June 2016	Year ended 30 June 2015
<b>Statement of comprehensive income</b>		
Income available for distribution	6 919 736	(3 515 558)
Distribution	4 398 000	11 873 905
<b>Statement of financial position</b>		
Capital value of unit portfolio	302 553 735	1 024 644 314
Current liabilities	14 827 030	12 402 408
<b>Total assets</b>	<b>317 380 765</b>	<b>1 037 046 722</b>
<b>Market value (Rm)</b>	<b>304.7</b>	<b>1 030.3</b>

### Effective asset allocation exposure\*



\*Please note that effective asset allocation exposure is net of derivative positions.

### Top 10 equity holdings as at 30 June 2016

	% of fund
Naspers	13.7
Old Mutual	8.0
FirstRand/RMB	4.8
AECI	4.6
Tongaat Hulett	4.5
Mondi	3.9
African Rainbow Minerals	3.0
Standard Bank	2.9
Anglo Platinum	2.9
Royal Bafokeng Platinum	2.6
	<b>50.9</b>



## Balanced Fund

### Fund objective

To provide investors with high, long-term capital growth within the constraints of the statutory investment restrictions for retirement funds. The fund seeks to provide a moderated exposure to volatility in the short term.

### Fund size (Rm)

277.4

### Fees (excl. VAT)

Initial fee	0.00%
Financial adviser fee (maximum)	3.00%
Ongoing advice fee (maximum)	1.00% pa
Management fee	1.25% pa

### Risk profile



### Income distribution Class A

31 December 2015	1.30 cpu
30 June 2016	1.73 cpu

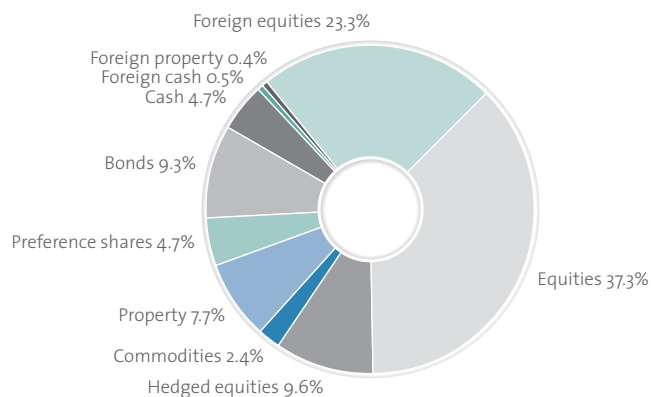
### Performance<sup>1</sup> (annualised)

One year to 30 June 2016	5.2%
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<sup>1</sup>Source: Morningstar

	Year ended 30 June 2016	Year ended 30 June 2015
<b>Statement of comprehensive income</b>		
Income available for distribution	14 191 128	4 384 071
Distribution	6 152 043	5 220 964
<b>Statement of financial position</b>		
Capital value of unit portfolio	273 969 104	290 102 966
Current liabilities	9 957 062	12 136 996
<b>Total assets</b>	<b>283 926 166</b>	<b>302 239 962</b>
<b>Market value (Rm)</b>	<b>277.4</b>	<b>293.2</b>

### Effective asset allocation exposure\*



Also included: Inflation linked bonds 0.1%

\*Please note that effective asset allocation exposure is net of derivative positions.

### Top 10 holdings as at 30 June 2016

	% of fund
Naspers	8.2
Old Mutual	4.3
FirstRand/RMB	2.9
Equites Property Fund	2.5
Tongaat Hulett	2.4
AECI	2.4
Mondi	2.1
African Rainbow Minerals	1.8
Softbank Group	1.7
Royal Bafokeng Platinum	1.6
	<b>29.9</b>

## Protector Fund

### Fund objective

To provide steady capital growth and returns that are better than equity market returns on a risk-adjusted basis over the medium to longer term.

### Fund size (Rm)

74.3

### Fees (excl. VAT)

Initial fee	0.00%
Financial adviser fee (maximum)	3.00%
Ongoing advice fee (maximum)	1.00% pa
Management fee	1.25% pa

### Risk profile



### Income distribution Class A

31 December 2015	24.87 cpu
30 June 2016	36.39 cpu

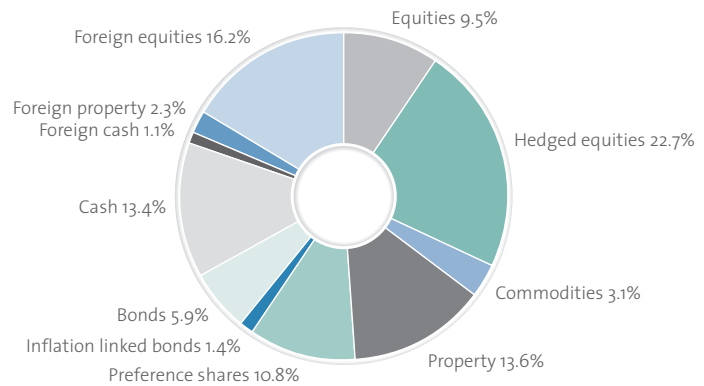
### Performance<sup>1</sup> (annualised)

One year to 30 June 2016	2.1%
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<sup>1</sup>Source: Morningstar

	Year ended 30 June 2016	Year ended 30 June 2015
<b>Statement of comprehensive income</b>		
Income available for distribution	1 542 257	2 745 402
Distribution	1 757 059	1 314 723
<b>Statement of financial position</b>		
Capital value of unit portfolio	73 306 560	72 742 667
Current liabilities	1 681 501	1 954 189
<b>Total assets</b>	<b>74 988 061</b>	<b>74 696 856</b>
<b>Market value (Rm)</b>	<b>74.3</b>	<b>73.6</b>

### Effective asset allocation exposure\*



\*Please note that effective asset allocation exposure is net of derivative positions.

### Top 10 holdings as at 30 June 2016

	% of fund
Zambezi Platinum Pref	5.8
Old Mutual	3.6
Equites Property Fund	3.3
Tongaat Hulett	2.2
Delta Property Fund	2.1
FirstRand/RMB	2.0
Naspers	1.9
Anglo Platinum	1.8
Tiso Blackstar Group	1.8
AECI	1.8
	<b>26.3</b>

## Stable Fund

### Fund objective

To provide total returns that are in excess of inflation over the medium term. The fund aims to provide a high level of capital stability and to minimise loss over any one-year period, within the constraints of the statutory investment restrictions for retirement funds.

### Fund size (Rm)

181.8

### Fees (excl. VAT)

Initial fee	0.00%
Financial adviser fee (maximum)	3.00%
Ongoing advice fee (maximum)	1.00% pa
Management fee	1.25% pa

### Risk profile



### Income distribution Class A

31 December 2015	1.53 cpu
30 June 2016	2.32 cpu

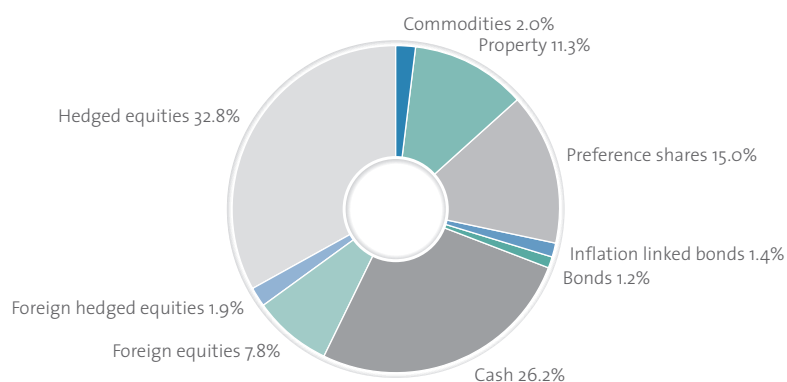
### Performance<sup>1</sup> (annualised)

One year to 30 June 2016	6.8%
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<sup>1</sup> Source: Morningstar

	Year ended 30 June 2016	Year ended 30 June 2015
<b>Statement of comprehensive income</b>		
Income available for distribution	10 663 544	11 414 283
Distribution	5 508 229	5 389 097
<b>Statement of financial position</b>		
Capital value of unit portfolio	178 716 005	241 192 660
Current liabilities	7 075 377	8 374 967
<b>Total assets</b>	<b>185 791 382</b>	<b>249 567 627</b>
<b>Market value (Rm)</b>	<b>181.8</b>	<b>244.2</b>

### Effective asset allocation exposure\*



Also included: Foreign property 0.2% and Foreign cash 0.2%

\*Please note that effective asset allocation exposure is net of derivative positions.

### Top 10 holdings as at 30 June 2016

	% of fund
Naspers	4.6
Equites Property Fund	4.0
Zambezi Platinum Pref	3.9
Old Mutual	2.7
Delta Property Fund	2.3
Fortress Income Fund	2.1
AECI	1.8
Absa Pref shares	1.8
RECM & Calibre Pref	1.7
Tiso Blackstar Group	1.6
	<b>26.5</b>

## Top 40 Tracker Fund

### Fund objective

To track the movements and replicate the performance of the FTSE/JSE Top 40 Index over time.

### Fund size (Rm)

65.0

### Fees (excl. VAT)

Initial fee	0.00%
Financial adviser fee (maximum)	0.00%
Ongoing advice fee (maximum)	0.25% pa
Management fee	0.50% pa

### Risk profile



### Income distribution Class A

31 December 2015	79.78 cpu
30 June 2016	53.00 cpu

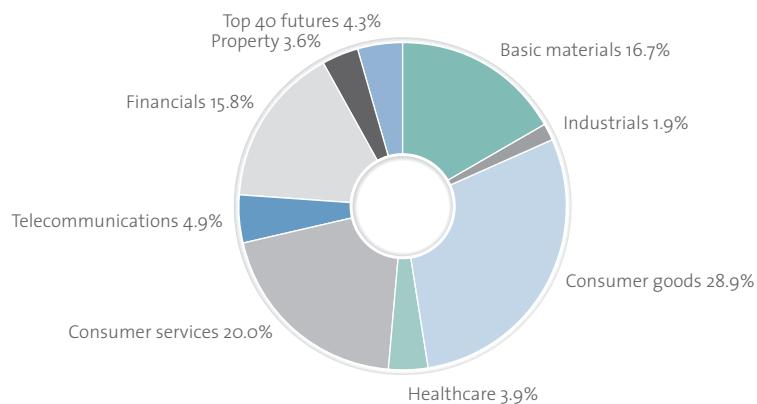
### Performance<sup>1</sup> (annualised)

One year to 30 June 2016	1.3%
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<sup>1</sup> Source: Morningstar

	Year ended 30 June 2016	Year ended 30 June 2015
<b>Statement of comprehensive income</b>		
Income available for distribution	803 696	1 817 406
Distribution	1 524 149	2 314 178
<b>Statement of financial position</b>		
Capital value of unit portfolio	64 503 127	75 382 745
Current liabilities	604 319	1 466 026
<b>Total assets</b>	<b>65 107 518</b>	<b>76 848 771</b>
<b>Market value (Rm)</b>	<b>65.0</b>	<b>76.8</b>

### Effective asset allocation exposure\*



\*Please note that effective asset allocation exposure is net of derivative positions.

### Top 10 equity holdings as at 30 June 2016

	% of fund
Naspers	15.4
SABMiller	13.3
Richemont	6.8
BHP Billiton	6.1
British American Tobacco	4.5
MTN	4.0
Sasol	3.5
Steinhoff	3.5
Anglo American	3.0
Old Mutual	2.9
	<b>63.0</b>

# Sharia unit trust range

## Islamic Equity Fund

### Fund objective

A Sharia-compliant fund that aims to provide steady capital growth and a total portfolio return that is better than the average general equity fund.

### Fund size (Rm)

700.0

### Fees (excl. VAT)

Initial fee	0.00%
Financial adviser fee (maximum)	3.00%
Ongoing advice fee (maximum)	1.00% pa
Management fee	1.25% pa

### Risk profile



### Income distribution Class A

31 December 2015	1.07 cpu
30 June 2016	0.93 cpu

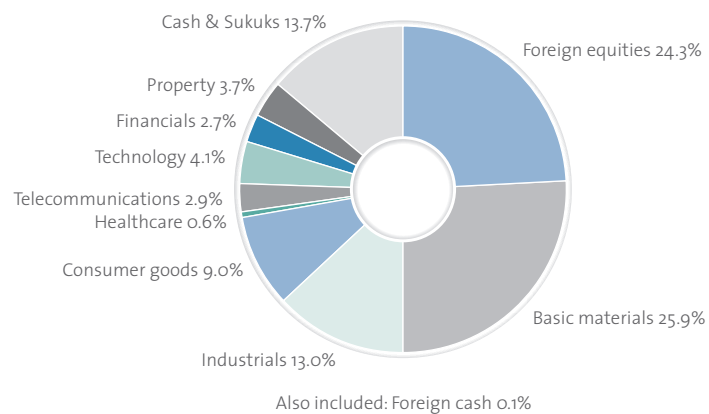
### Performance<sup>1</sup> (annualised)

One year to 30 June 2016	4.5%
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<sup>1</sup> Source: Morningstar

	Year ended 30 June 2016	Year ended 30 June 2015
<b>Statement of comprehensive income</b>		
Income available for distribution	28 600 465	(38 756 901)
Distribution	6 773 068	6 119 467
<b>Statement of financial position</b>		
Capital value of unit portfolio	696 937 976	722 176 335
Current liabilities	26 152 735	32 286 507
<b>Total assets</b>	<b>723 090 711</b>	<b>754 462 842</b>
<b>Market value (Rm)</b>	<b>700.0</b>	<b>725.8</b>

### Effective asset allocation exposure



### Top 10 equity holdings as at 30 June 2016

	% of fund
Mondi	6.0
Tongaat Hulett	3.8
Adcorp	3.5
Royal Bafokeng Platinum	3.3
AECI	3.2
Datatec	3.0
Sasol	3.0
MTN	2.9
Cisco Systems	2.8
Samsung	2.8
	<b>34.3</b>

## Islamic Balanced Fund

### Fund objective

A Sharia-compliant fund that aims to provide steady long-term returns and capital growth within the constraints of the statutory investment restrictions for retirement funds.

### Fund size (Rm)

476.6

### Fees (excl. VAT)

Initial fee	0.00%
Financial adviser fee (maximum)	3.00%
Ongoing advice fee (maximum)	1.00% pa
Management fee	1.25% pa

### Risk profile



### Income distribution Class A

31 December 2015	0.25 cpu
30 June 2016	0.21 cpu

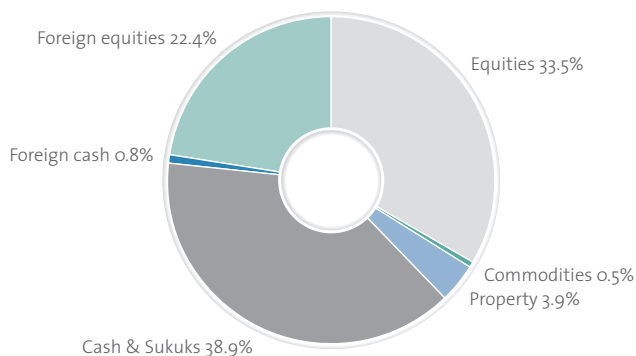
### Performance<sup>1</sup> (annualised)

One year to 30 June 2016	4.7%
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<sup>1</sup> Source: Morningstar

	Year ended 30 June 2016	Year ended 30 June 2015
<b>Statement of comprehensive income</b>		
Income available for distribution	19 871 413	(6 684 842)
Distribution	1 794 599	1 574 096
<b>Statement of financial position</b>		
Capital value of unit portfolio	475 760 024	420 647 305
Current liabilities	8 591 288	5 935 588
<b>Total assets</b>	<b>484 351 312</b>	<b>426 582 893</b>
<b>Market value (Rm)</b>	<b>476.6</b>	<b>421.9</b>

### Effective asset allocation exposure



### Top 10 holdings as at 30 June 2016

	% of fund
Mondi	3.5
Tongaat Hulett	2.9
Corning	2.9
Equites Property Fund	2.6
Royal Bafokeng Platinum	2.6
Cisco Systems	2.5
BASF	2.3
Anglo Platinum	2.2
Samsung	2.1
MTN	2.1
	<b>25.7</b>

# Our investment philosophy

We make investment decisions based on mispricings we observe in the market. Simply put, we buy investments that are priced well below their intrinsic values and avoid those that we believe are overpriced.

## **Opportunities arise when market prices deviate from intrinsic value**

All investments represent a set of future cash flows, which can be valued with reasonable accuracy. Over time, this intrinsic value progresses at a fairly stable pace. Asset prices, however, fluctuate considerably through time. This is largely due to self-reinforcing cycles of enthusiasm or negativity, often fuelled by an excessive focus on near-term data and news flow.

Our aim is to identify and exploit mispricings in the markets. We therefore buy investments at prices well below our estimation of their intrinsic value and hold them while they deliver strong cash returns and until

they can be sold above this value. Once sold, we avoid such overvalued investments for as long as the market price is above the intrinsic value.

## **The future is never certain**

We recognise that there is considerable danger in operating with the comfort of a false sense of certainty and the accompanying behavioural reinforcement cycles that lead to a distorted evaluation of new information. As a result, we understand that despite our best efforts, we cannot possibly know all the facts.

This drives us to think more deeply, to work harder and to be more alert. We therefore view the future in terms of probabilities, we explore alternative scenarios, diversify our positions, hedge risk and seek out potential asymmetries.

Copies of the 2016 audited financial statements for Kagiso Collective Investments Limited, each of the unit trust portfolios and the Annual Report by the Sharia Supervisory Board are available on request - free of charge.

Call our client service team on 0800 864 418 or send an email to [clientservice@kagisoam.com](mailto:clientservice@kagisoam.com) to request a printed or electronic copy.

**Kagiso Collective Investments Limited**  
Company Registration Number: 2010/009289/06

**Trustees**  
Standard Bank of South Africa Limited,  
Private Bag X 54, Cape Town, 8000

**Directors**  
Executive Director: RG Greaver  
Non-executive Directors: R Bhayat, GL Carter, D Gill and GJ Wood

**Company Secretary**  
Tracy-Lee Scott



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