Kagiso Balanced Fund

as at 30 June 2014

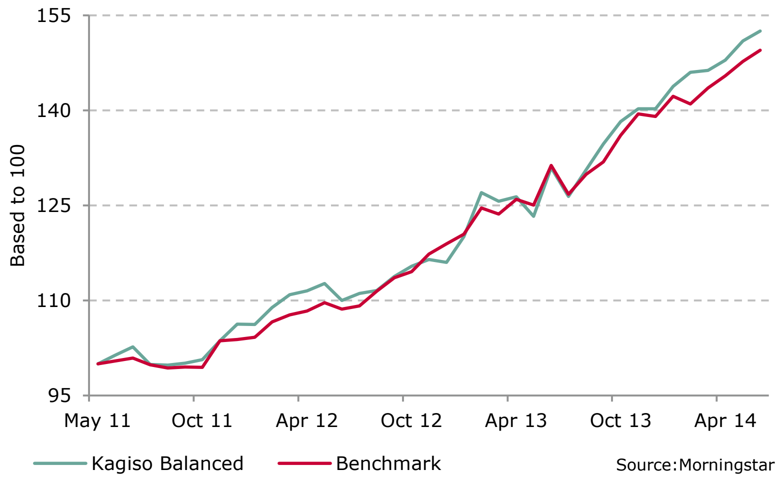
Performance and risk statistics[1]

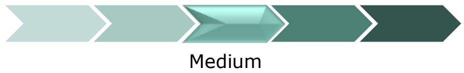
	Fund	Benchmark	Outperformance
1 year	22.0%	19.5%	2.5%
2 years	17.8%	17.8%	0.0%
3 years	15.6%	14.9%	0.7%
Since inception	14.2%	13.9%	0.3%

	Fund	Benchmark
Annualised deviation	7.0%	5.6%
Sharpe ratio	1.2	1.5
Maximum gain*	22.0%	14.7%
Maximum drawdown*	-3.5%	-3.5%
% Positive months	78.9%	76.3%

*Maximum % increase/decline over any period

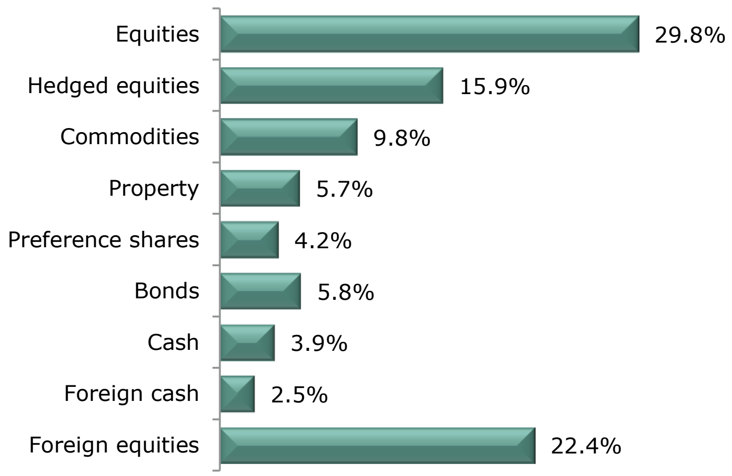
Cumulative performance since inception



Portfolio manager	Gavin Wood
Fund category	South African - Multi Asset - High Equity
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.
Risk profile	
Suitable for	Investors who are building up and growing their long-term retirement capital while seeking capital growth. Investors would also be seeking to preserve the purchasing power of their capital over the long-term, with a time horizon of three years or longer.
Benchmark	South African - Multi Asset - High Equity funds mean
Launch date	3 May 2011
Fund size	R153.5 million
NAV	149.82 cents
Distribution dates	30 June, 31 December
Last distribution	30 June 2014: 1.29 cpu
Minimum investment	Lump sum: R5 000; Debit order: R500 pm
Fees (excl. VAT)	Initial fee: 0.00% Financial adviser fee: max 3.00% Ongoing advice fee: max 1.00% pa Annual management fee: 1.25%
TER[2]	1.51%

Unconventional thinking.

Effective asset allocation exposure*



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

Top 10 equity holdings

	% of fund
Sasol	4.4
Standard Bank	3.8
Lonmin	3.1
Tongaat Hulett	2.9
Anglo American	2.7
Growthpoint Australia	2.7
FirstRand/RMB	2.6
Anglo Platinum	2.5
AECI	2.3
MTN	2.1
Total	29.1

[1] Performance is quoted from Morningstar as at month-end for a lump sum investment using Class A 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. Performance figures are quoted after the deduction of all costs incurred within the fund. All performances are annualised.
[2] The Total Expense Ratio (TER) is calculated as a percentage of the average NAV of the portfolio incurred as charges, levies and fees in the management of the portfolio for a rolling 12-month period to end June 2014. A higher TER ratio does not necessarily imply a poor return nor does a low TER imply a good return. The current disclosed TER cannot be regarded as an indication of future TERs.

Kagiso Balanced Fund - Quarterly commentary

as at 30 June 2014

The Balanced Fund returned 4.3% for the quarter and 22.0% over a one-year period, 2.5% ahead of its peer benchmark. The fund recently marked its three-year anniversary and has outperformed its benchmark by 0.3% pa since its inception. This was achieved despite a very defensive positioning in domestic equity, which continues to run ahead of our assessment of reasonable valuation. The fund continues to provide positive returns ahead of inflation with a high degree of focus on capital preservation.

Economic and market overview

Global and local equity markets continued their grind higher at a faster pace than economic improvements. During the quarter, geopolitical tensions in the Ukraine, between China and its neighbours and in the Middle East were notable.

Monetary policy developments continued to influence asset prices. The US Federal Reserve left its tapering programme unchanged, the Bank of Japan continued with asset purchases and the European Central Bank cut short-term rates and announced it was looking at quantitative easing-style interventions.

In South Africa, the rand ended the quarter only slightly weaker, with the country acting as a relative safe haven in the emerging market context. The crippling five-month platinum sector strike, which came to an end during the quarter, has had broad negative consequences for a wide swathe of the local economy. NUMSA's subsequent strike in the metals and engineering sector will place further pressure on SA's uncomfortably large current account deficit and slow economy.

S&P announced their widely-expected sovereign credit downgrade over the period, with Fitch moving South Africa's rating to a negative outlook. Bond valuations look marginally attractive at the long end of the curve. However, capital values remain vulnerable in the short-term given the high level of foreign ownership and an environment of high twin deficits and slowly normalising US monetary policy.

The South African Reserve Bank kept rates on hold at 5.5% over the period, but instituted its own form of forward interest rate guidance, highlighting that we are now in an upward rate hiking cycle. Given the ongoing economic weakness and in the absence of a significant currency shock from here, we expect a fairly shallow and gradual rate hiking cycle of around 1.5% over the next two years.

Fund performance and positioning

Tongaat, FirstRand and Pick n Pay were the fund's strongest performers over the quarter, while Lonmin, Metair and Anglo Platinum detracted. Offshore holdings performed well, particularly Apple, Unibail-Rodamco and Intel, as did the fund's PGM ETF holdings. Due to equity market strength over the period, the fund's defensive positioning in cash and options dragged on performance.

The fund's position in Metair offers significant value as the company is likely to benefit from the global automotive sector's response to tightening vehicle emission standards, particularly by manufacturing batteries for start-stop engine management systems. Metair's subsidiary, First National Battery, has developed the technology to manufacture these batteries and Metair has made acquisitions that give it relevance in Europe's significantly larger vehicle market. Demand for start-stop batteries is expected to increase by 20% pa over the next five to 10 years and Metair is investing to expand production. At the current price, the stock is trading at below 10 times our estimate of normalised earnings.

Overall, levels in the SA equity market are now even more expensive than a quarter ago and we are finding very few undervalued stocks in the local market. The fund retains significant exposure to PGM miners (with severely depressed share prices) and the metal ETFs as we believe that metal prices need to rise given the constrained supply environment and gradually improving demand outlook.

In addition, the fund retains exposure to certain banking shares (Standard Bank and FirstRand) and commodity shares (Anglo American, Tongaat and Sasol). We continue to find little value in most industrial shares, with the exception of selected mid-caps.

Listed property has recently underperformed equities, improving the relative attractiveness of this sector. We have increased the fund's exposure to property companies with foreign operations (Intu Properties and New Europe Property Investments) and certain high quality domestic companies, which we think will fare better in the difficult operating environment we see ahead.

We see value in longer dated bonds and have been increasing exposure into weakness. Inflation-linked bonds are offering very little value at current levels and we have sold our previous holdings.

The fund retains a significant allocation to global assets, where we are finding opportunities in certain technology, healthcare and listed property stocks, as well as oil refiners and pipeline operators.

Portfolio manager
Gavin Wood

Key indicators	
Economic data	End of quarter figure
Latest consumer price inflation (CPI % YoY)	6.6%
Repo rate (%)	5.5%
3m JIBAR	5.8%
10-year government bond yield	8.2%
Key asset classes (total return)	Quarterly change
MSCI World Equity (US Dollar return)	4.2%
FTSE/JSE All Share Index	7.2%
FTSE/JSE Listed Property Index	4.4%
BEASSA All Bond Index	2.5%
Commodities and currency	Quarterly change
Platinum ($/oz)	4.9%
Gold ($/oz)	3.4%
Rand/US Dollar (USD)	0.9%